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SUPPLEMENT

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International Affairs

General

Takeshita Resignation To Affect Foreign Policy

Could Disrupt Plans

OW2804080889 Tokyo THE JAPAN TIMES in English
26 Apr 89 pp 1, 4—FOR OFFICIAL USE ONLY

[By staff writer Masaki Hisane: "Resignation Seen Disrupting Japan's Foreign Policy Plans"]

[Text] The pending resignation of Prime Minister Noboru Takeshita will probably have a significant impact on Japan's foreign policy efforts, at least over the next few months.

Takeshita announced Tuesday that he would go ahead with his scheduled visit to five of the six member states of the Association of Southeast Asian nations (ASEAN), starting Saturday.

In announcing his decision, Takeshita cited the need to maintain "continuity" in Japan's foreign policies.

But there are growing concerns both in Japan and among the ASEAN states that a lame duck Takeshita government will be unable to achieve any significant results during the trip.

The resignation announcement is also expected to have an adverse effect on other scheduled foreign policy activities, including South Korean President No Tae-u's planned visit in late May. The Seoul government is reportedly considering a possible postponement of the trip.

The prime minister told several Cabinet ministers, at a meeting earlier Tuesday, to proceed with plans to go abroad for talks with foreign leaders.

In line with the instructions, Foreign Minister Sosuke Uno announced he will leave for Moscow this weekend as planned, to meet his Soviet counterpart, Eduard Shevardnadze, and other Kremlin officials.

But a government source admitted the political turmoil in Japan might weaken Uno's position in tough negotiations with the Soviets on the thorny territorial dispute involving the Soviet-occupied islands off northeastern Hokkaido.

Under such circumstances, it would be difficult for Uno to win major political concessions on the issue, the source predicted.

When Takeshita actually steps down, probably next month, an interim government is expected to be formed. Regardless of the successor, the new prime minister will

probably find it difficult to demonstrate leadership at the annual summit of the seven major Western democracies in Paris in mid-July, observers believe.

A top Foreign Ministry official expressed concern that the political upheaval might damage the nation's international image and credibility.

The resignation announcement is also feared by many to impair Japan's ability to lessen intensifying friction with its trading partners, particularly the United States, amid signs of growing trade surpluses.

The Takeshita government had managed to reach accord with the U.S. on such politically sensitive trade issues as beef and orange imports and the domestic construction market. These agreements were realized, in part, due to the depth of Takeshita's political power base.

But the continuing turmoil makes it politically difficult for any Liberal-Democratic Party government to make major foreign policy decisions at the risk of losing yet more popular support, a government source said.

Diplomatic Hand Viewed as Weakened

OW2804124589 Tokyo THE JAPAN ECONOMIC
JOURNAL in English 29 Apr 89 p 1—FOR
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["Political Scene" column by Keichi Kawanishi,
NIHON KEIZAI SHIMBUN deputy political editor]

[Text] Japan's Foreign Ministry is increasingly concerned that ongoing political confusion triggered by the Recruit Cosmos stock scandal could adversely affect its diplomatic initiatives.

The concern has been increasing at the same time as popular support of the Takeshita government has plunged to a record low of around 10 percent. Even some segments of the ruling Liberal Democratic Party have started criticizing Prime Minister Noboru Takeshita, saying that the LDP will not win forthcoming elections as long as he holds on to power.

The result, according to a senior Foreign Ministry official, is that foreign countries could easily take advantage of the administration's weak domestic political foundation.

"We are presently in no condition to take any dynamic diplomatic leadership," he lamented.

In general, according to officials, Takeshita handled Chinese Prime Minister Li Peng's recent visit to Japan well, in part because no major problems needed solving. But with the Recruit scandal still escalating, Takeshita will have a hard time carrying out his foreign policies.

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Ministry officials are particularly concerned about Foreign Minister Sosuke Uno's visit to Moscow early next month. They are already saying that the Soviets are unlikely to offer any concessions on the Northern Territories issue.

That issue has been a major sticking point between the nations since the Soviets captured four northern islands off Hokkaido after World War II. Japan has demanded the return of the islands, saying they are illegally occupied by the Soviets.

"The Soviets know the Takeshita administration's strengths and weaknesses very well," said one Foreign Ministry official. "During coming talks with Uno, there is a possibility that they might try to undermine the Japanese stance over the territorial issue."

In past Japan-Soviet negotiations over the territorial issue, prevailing political conditions have played an influential role.

For example, in 1973 when former Prime Minister Kakuei Tanaka was at the height of his power, he went to Moscow and argued the issue with then General Secretary Leonid Brezhnev.

As a result, the Soviets admitted that the Northern Territorial issue was "included in unresolved postwar issues between the two nations," thereby greatly improving the Japan-Soviet relations.

Later, when Prime Minister Tanaka's alleged "money-oriented politics" was revealed, the Japanese political scene was plunged into confusion. In 1975, when the Japan-Soviet ministerial conference was held in the midst of political turmoil, the Soviet Union suddenly reversed its previous dovish stance. It then said that the territorial issue was already resolved and no longer existed.

Not until the mid-1980s, when Prime Minister Yasuhiro Nakasone's cabinet gained popularity, did the Soviets resume a dovish stance.

The fear, then, is that in today's tumultuous climate, Moscow will not be willing to offer new bargaining chips.

Takeshita to ASEAN

Prime Minister Takeshita's planned visit to the Association of Southeast Asian Nations late this month also worries Foreign Ministry officials.

According to one, the visit "might not be one fit to enhance Japan-ASEAN relations." The officials' misgivings stem largely from lack of clear indications on when fiscal 1989 governmental budget bills will be approved by the Diet.

As long as those bills remain unresolved, the Japanese government will not be able to offer to ASEAN the official development assistance funds budgeted in the bills.

One ministry official warned that Takeshita should not cover up his domestic weakness with diplomatic triumphs, saying Japan should never conduct "souvenir diplomacy" by giving away ODA [overseas development aid].

Takeshita's only comfort is that, apart from the still-sensitive FSX fighter plane dispute, no other major issues are straining Japan-U.S. relations.

"If any big problem were to arise in Japan-U.S. relations now, Takeshita could not hold on and would have to resign immediately," said one LDP leader.

On the FSX issue, the Defense Agency is worried that it might evolve into a political litmus test.

"We are really worried that the handling of the issue might be entrusted to Prime Minister Takeshita and that he might be forced to make big concessions," said one agency official.

Foreign Firms Dissatisfied With Construction

OW2104181689 Tokyo ASAHI EVENING NEWS
in English 19 Apr 89 p 5—FOR OFFICIAL USE ONLY

[Text] On the face of it, Japan's efforts to open up its "closed" construction market have made good progress during the past year, yet discontent runs deep both here and abroad, particularly in the United States.

A number of American construction firms have been allowed into the Japanese market and have made successful bids for big projects since Tokyo and Washington signed an access agreement last May.

"Things are making good progress," says Susumu Takahashi, the construction vice minister.

But the way orders are placed, for example, still leaves much to be desired, say industry sources. Nor has the notorious "dango" bid-rigging practice been corrected. What's more, the "opening" of the market has created new problems.

Eight American and six South Korean firms and one Franco-Japanese joint venture have been granted business licenses since the autumn of 1987, according to the Construction Ministry.

In February Bechtel Corp. won a ¥ [yen] 134 million consultancy contract for a project to build a toll motorway across Tokyo Bay. In addition, the firm is expected to win a 10 percent stake in a ¥90 billion airport expansion project at Haneda, Tokyo.

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Schal Associates, also of the United States, has joined a nine-member consortium to build international conference halls and hotels in Yokohama. Ten percent of the work involved, worth about Y18 billion, will go to the company.

In March, meanwhile, a noted Spanish architect and the French airport authority in Paris formed a joint venture with two Japanese firms and won a Y1.4 billion basic design contract for a terminal building at the new Osaka airport now under construction.

Yet behind all this "progress" lie some new problems. For instance, the design cost of a Kansai (Osaka) airport has shot up as a result of the opening of the project to foreign firms.

One cynical view holds that the Kansai International Airport Co. accepted a higher price from among European bidders in order to give the "get tough on Japan" American side a lesson.

However, Bechtel received favorable treatment. Its participation in the Haneda Airport expansion project was tacitly promised when the Tokyo-Washington accord was reached.

The firm was also hired as a consultant in the Tokyo Bay project—a job for which no open tender had been made. Foreign firms were not designed for bidding in the basic construction project.

As for Schal, the Yokohama "Minato Mirai" project promises to bring it a deficit, not a profit, according to industry sources. Moreover, it has been linked in the press to rumors of bid-rigging.

Originally four American companies had offered to take part in the project, touted as the first case of competitive international bidding. As it turned out however, the contracts went to the nine member group headed by Toda Construction Co.

Why did the four stay on the sidelines? Apparently in part because some other major Japanese constructors criticized the government for "winking at dango" in order to ensure foreign participation.

Intentionally high prices offered by the project company also seem to have turned away the prospective bidders, landing the project in the lap of a relative unknown—the Toda group.

"Costs have gone up a bit too high, and things are developing on a trial and error basis," says Michio Suzuki, the vice minister in charge of technical affairs.

Looking over the past year, however, essential parts of public projects—those involving civil engineering and building work—have remained unchanged.

"As things stand, it will be difficult to fend off the U.S. offensive," says Masayoshi Endo, former chairman of Japan Architects Association. Late last year he sent a report to the U.S. Trade Representative's Office citing some of the barriers to the Japanese building market.

Kunio Maeda, managing director of Tobishima Corp., suggests that the practice of forming a consortium for a large project should be abolished and an open and competitive bidding system should be introduced to replace the current system of "designated bidding."

At the moment, however, there are no signs that the Construction Ministry is moving in this direction.

MITI Pan-Pacific Growth Proposal's Welcomed
OW1504040689 Tokyo THE JAPAN TIMES
in English 14 Apr 89 p 10—FOR OFFICIAL USE ONLY

[Text] JIJ—The Ministry of International Trade and Industry is encouraged by Asian leaders' favorable reaction to its proposal for economic and political cooperation in the Asia-Pacific region.

The proposal itself was a "historic event" for Japan, a senior MITI official said, as it would once have been considered taboo in view of Japanese actions in the region during the last war.

Wary of Asian reaction, Tokyo was emboldened by growing calls for regional unity from other countries. Earlier this year, South Korean President No Tae-u supported Australian Prime Minister Robert Hawke's proposal in Seoul for a council to exert regional influence on the world economy.

Following the No-Hawke agreement, a South Korean government spokesman said Seoul and Canberra wanted to hold a meeting of economic ministers from Japan, Indonesia and other neighboring countries.

In July, then U.S. Secretary of State George Shultz unveiled a plan in Jakarta to set up a governmental pan-Pacific forum to promote cooperation in many areas, including education, communication and energy.

U.S. Sen. Bill Bradley (D-New Jersey) called in December for the creation of a PAC-8 group of eight Pacific Rim countries. In addition, Secretary of State James Baker told the Senate Foreign Relations Committee in January that Washington needed to tighten its ties with the Association of Southeast Asian Nations (ASEAN) and other groups in the region.

MITI sees the growing calls for Asian and Pacific cooperation as the "natural current" of the times, the official said.

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He pointed out that there were two major tides in the current world economy—multilateral free trade arrangements, represented by the Uruguay Round under the General Agreement on Tariffs and Trade, and regional economic unity, such as the European Community's decision to create a unified market in 1992 and a U.S.-Canada free-trade pact that went into effect in January.

According to a MITI official, the two are interrelated, because the unification of regional markets can open the way for a global trade system without barriers.

Appeals for Asian and Pacific cooperation possess added significance because the region's economies have become increasingly interdependent in the 1980s, the official said.

Trade data show that ASEAN members, the newly industrializing economies (NIEs) in Asia, the United States, Australia, New Zealand, China and Japan boosted their reliance on the region to between 50 percent and 70 percent in 1981-1987. This was an increase of between five percentage points and 10 percentage points.

The increased interdependence is not confined to trade. It also covers investment, technology, finance and other fields.

MITI attributes the region's rapid economic growth to the strong dollar in the first half of this decade and the yen's appreciation in the second half.

The strong dollar, against the backdrop of a brisk U.S. economy, helped Asian nations double their exports to the United States, while American companies boosted their investment in Asia by 70 percent.

The strong yen pushed up prices of Japanese products overseas and weakened their international competitiveness. Coupled with Tokyo's drastic steps to expand domestic demand, it contributed to a steep increase in Japan's imports.

Exports to Japan from the United States, Canada, Australia, New Zealand, Asian NIEs ASEAN and China jumped an average of 32 percent in 1988. Japan's investment in these countries soared fourfold between 1985 and 1988.

MITI concludes that the Asia-Pacific region is becoming a locomotive for the world economy because of its high growth and sharply expanding imports from other regions.

Shigeo Muraoka, deputy vice MITI minister, visited Singapore, Malaysia, Thailand, Indonesia and Hong Kong from March 7 to 21 to unveil a plan for Japan's role in the formation of an economic bloc in the rapidly changing Asia-Pacific region.

Cooperation will be a major topic for Prime Minister Noboru Takeshita when he visits these countries in late April through early May. With the domestic public approval rating of his Cabinet at a record low in the wake of the Recruit influence-buying scandal, Takeshita wants to use the plan to help pull himself out of the fire.

Since Muraoka was expected to win prior consent to the Japanese plan from leaders of the five countries, MITI officials waited nervously to see whether he could carry out the mission.

Based on Shultz's proposal in Jakarta, the Japanese plan envisions a loose economic community in the pan-Pacific region including Japan, ASEAN, Asian NIEs, the United States, Canada, Australia, New Zealand, Pacific island countries and China.

The plan has three principles. The community, should cover a wide range of areas, including trade, education and culture. It should respect both multilateral and bilateral trade arrangements already in force. And it should be open to non-member countries.

The scheme could end in smoke if it is viewed as a revival of Japan's pre-war plan to create a Greater East Asia Co-Prosperity Sphere. Aware of that, MITI believes Japan should avoid coming to the fore as much as possible but should help existing cooperative relations develop into an economic community step by step.

Contrary to their earlier anxiety, MITI officials now show signs of confidence based on the favorable response of Asian leaders to the Japanese proposal.

Muraoka has revealed that the economic ministers of the five countries, without exception, stressed the importance of Japan's regional role. This consistent reaction was a shocking experience in a way, he said, because he had anticipated that the proposal would invite resistance from some leaders.

While Japan should continue paying heed to other countries' memory of its wartime actions, Muraoka's tour proved that Asian leaders are more concerned about the future economic health of their countries, a MITI official commented.

GATT Secretary Interviewed on Japanese Market
OW2304101389 Tokyo SANKEI SHIMBUN
in Japanese 20 Apr 89 Morning Edition p 9—FOR
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[By Yukichi Yanagishima]

[Text] Geneva, 19 Apr—GATT General Secretary Dunkel gave an interview to SANKEI SHIMBUN at the Geneva headquarters on 19 April. In the interview, Mr Dunkel said that he "can by and large understand" the position on securing rice and other foodstuffs presented by Japan at the Trade Negotiations Committee meeting

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held for an intermediate review of the Uruguay round, but added that "there is no justifiable ground for attempting to draw a line between the area of industrial products and that of agricultural products from a commercial policy viewpoint, and Japan should make its judgment more from global viewpoints." He thus indirectly called on Japan to open its market for rice and other foodstuffs. On the future prospects of the negotiations, Mr Dunkel indicated that GATT will seriously tackle the problem of lowering tariff duties and liberalizing services by reinforcing the process of settling grievances as agreed on in the Trade Negotiations Committee.

[SANKEI SHIMBUN] What is the latest status of the negotiations?

[Dunkel] This week, the negotiations are about trade services, while various gatherings are set for next week. All groups are energetically pursuing their respective aspects. It is remarkable that such progress has been made in 2 years.

[SANKEI SHIMBUN] On agricultural issues, the United States and the EC have differing views. What are your comments, please.

[Dunkel] Results in this regard are: 1) The core of agricultural negotiations has been confirmed; 2) the Punta del Este agreement has become more clear; 3) the basic elements to be dealt with in the negotiations have become more clear; 4) the foundation for future of agriculture has been set. The root of all the problems lies in the governments of many nations following policies and practices for the last 4 years which run counter to the spirit of GATT. The fact that this has been brought into the open and been admitted to is clear proof that the nations have earnestly been participating in the negotiations.

[SANKEI SHIMBUN] What is your view on the issue of food security demanded by Japan?

[Dunkel] Japan wants to have rice secured. Some nations might want wheat secured, while Switzerland wants potatoes secured. Still, the concept of security varies by nation according to customs. The objectives of the on-going negotiations are to effect liberalization and to abolish subsidies on prices of agricultural products. Consequently, discussions were held on how far the security of foodstuffs should be carried for each different nation. I can by and large understand why Japan and other nations want to tie the issue of securing supplies with the issue of securing foodstuffs.

[SANKEI SHIMBUN] Would you comment on the issue of Japan opening its rice market?

[Dunkel] There is no reason for me to lecture the Japanese Government on agricultural policies, but I think there is little justifiable ground for attempting to draw a line between the area of industrial products and the area of agricultural products if we view the matter

from a commercial policy standpoint. Just as Japan has things to say about ways other nations import industrial products, Japan should make judgments based on global viewpoints.

[SANKEI SHIMBUN] There is criticism that GATT favors Europe. Would you comment on this?

[Dunkel] GATT has nothing to do with Europe. It does not matter if GATT's headquarters is in Tokyo or Singapore. The EC is due to integrate its market, but there are many other such integrated markets. The United States, Brazil, and India can be said to have integrated markets in a way. The Uruguay Round negotiates with such integrated markets under the same terms as with other countries.

[SANKEI SHIMBUN] How does GATT plan to counter the provisions of Section 301 of the U.S. omnibus trade law?

[Dunkel] Even though the United States put the trade law into effect, if the United States and other member countries of GATT can reach agreement as a result of the negotiations, it is probable that the United States will refrain from invoking some of the provisions. Along the way, if GATT member nations determine that the United States is engaged in conflicting actions, GATT can conduct serious investigations into these actions, seeking solutions to the controversies. There is even a possibility that the United States will change its policies if the GATT panel or the cabinet ministers' council make a recommendation to the country.

Government To Launch Environmental Diplomacy
OW 2804154389 Tokyo THE JAPAN ECONOMIC
JOURNAL in English 29 Apr 89 pp 1, 6—FOR
OFFICIAL USE ONLY

[By staff writer Katsuro Kitamatsu]

[Text] Japan is launching a major environmental initiative designed to head off international pressure about its global responsibilities.

According to government officials, the three-pronged strategy comprises massive donations for environmental programs, development of preservation technology and Japanese leadership in global forums.

The initiative marks a major switch in diplomatic focus for Japan, which has often been criticized for lacking a global environmental conscience.

"We cannot meet the burden-sharing demand on the military front but we should in the area of environmental preservation," Prime Minister Noboru Takeshita recently told Environment Agency officials.

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Sphere of influence

Government officials said the prime minister's recent "Save the Earth" interest largely stems from a belief that Japan must take the initiative in a sphere of influence that lacks a clear leader, and where Japan can use its new wealth and technological prowess to aid the global quality of life.

Despite this goal, environmental protection remains a politically sensitive issue and raises the specter of conflict between governments, industry and citizens around the world.

"It's welcome news that the Japanese government is taking its responsibility more seriously as a vast consumer of worldwide natural resources," said Michio Hashimoto, former secretary-general of the Environment Agency's atmosphere quality bureau. "But doing so means initiating an uphill battle in international politics."

Money matters

Major environmental problems range from depletion of the world's ozone layer and global warming to acid rain, deforestation, destruction of tropical rain forests and cross-border disposal of dangerous industrial wastes.

Most of these phenomena have resulted from rapidly expanding industrial activities around the globe, in which Japanese companies play an integral role.

To support Takeshita's strategy, the government has proposed a 20.4 percent increase in the fiscal 1989 budget for global preservation programs, to Y [yen] 95,159 million. Overall policy spending is expected to rise just 3.3 percent to Y34 trillion.

The government also plans to place the highest priority on preservation projects when it distributes Japan's Y755,700 million in official development assistance in fiscal 1989, according to Foreign Ministry officials.

Besides money, the Tokyo initiative is pressing Japanese companies and institutions to develop environmentally conscious products.

As incentives, the Ministry of International Trade and Industry [MITI] will hold an auction on a Y300 million project to create an advanced satellite sensor that would observe the global environment.

Further, MITI will set aside Y60,600 million this year to encourage the development of solar, geothermal and other next-generation energy by the private sector.

Japanese industry has already developed state-of-the-art anti-pollution technologies to effectively purify contaminated gas and wastes emitted from automobiles and factories.

The third leg of Takeshita's strategy is to reverse Japan's poor environmental image by establishing its leadership in international forums.

Last fall, for example, an inter-government panel to discuss practical measures against climate changes was formed under the auspices of the World Meteorological Organization and the United Nations Environment Program.

Japan is chairman of two of the panel's committees. The panel is scheduled to submit policy recommendations, including international rules on energy consumption and other industrial activities that affect the climate, to the United Nations' General Assembly in the fall of 1990.

Meanwhile, the Japanese government is also set to host an international conference of global environmental experts in Tokyo this September.

"Although our nation has been taking a back seat to Western governments on the environmental issue, there are still various areas in which we can play a key role," said Kazuo Matsushita, an Environment Agency official, who is helping organize the conference.

Japan is also expected to play an active role promoting such issues at this July's Group of Seven summit in Paris.

Last year, in Toronto, summitters pledged to resolve environmental problems and suggested such measures as reductions in carbon dioxide emission, regarded as the major cause of global warming.

Global disagreements

Despite Takeshita's actions, there's widespread skepticism in Japan and abroad whether the initiative is more style than substance.

Analysts say that's because Japan has never before appeared eager to take on environmental responsibilities. To some, indeed, Takeshita's approach reveals a naivete about current problems and disagreements.

For example, some developing countries, while acknowledging the necessity of environmental protection, fear that excessive global industrial development regulations will stifle their economic vitality.

Disagreements are also brewing among industrial governments. France, the Netherlands and Norway are urging that industrial nations should uniformly cut domestic emissions of carbon dioxide and introduce punitive measures to achieve that goal.

So far, Japan and the U.S. have countered that simple regulations would be counterproductive to industrial activities.

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"The debates will likely expand to include attacks on Japan's heavy dependence on imports of natural resources," said Hashimoto, the former Environment Agency official.

The nation's massive imports of tropical timbers and cultured prawns from neighboring Asia could become targets of criticism, he said.

"One thing Japan should do is to provide more human resources to developing countries and show them Japan is serious about the issue," Hashimoto said. "Money and technologies are important, but far from impressive enough."

* International Environmental Aid Analyzed

41060091 Tokyo SANKEI SHIMBUN
in Japanese 5 Mar 88 p 7—FOR OFFICIAL USE ONLY

[Text] The government has resolved to follow a policy of making the environmental preservation measures that accompany various kinds of economic aid to developing countries into a central theme in Japan's future economic aid. Japan is proceeding to make positive approaches in this area to developing countries. This is because global-scale environmental destruction, such as the greenhouse effect and acid rain, has become an issue, and forecasts are becoming more certain that this issue will be taken up as a major subject at the advanced nations summit to be held in France in July. The developing countries, which already suffer from the pollution which accompanies economic development, have expressed a strong interest in the know-how which allowed Japan, formerly a "pollution giant," to control pollution and sustain its present state of development. Moreover, there appear to be great expectations concerning Japan in this area.

A "Protection Center" To Be Built in China

According to government sources, the growth of pollution accompanying industrialization is becoming more serious in the developing countries, such as China. Of these nations, China's situation is such that polluted air and water are evident in Beijing, and a project for the building of a "Center for the Protection of the Environment" (proposed name) is expected to be finalized soon.

When Prime Minister Takeshita visited China to commemorate the 10th anniversary of the signing of the Japan-China Peace and Friendship Treaty, he offered capital assistance along with the basic [project] concept to the Chinese Government. Concrete discussions have moved along quickly, including twice sending a survey team from Japan.

At the end of this month a third survey team will be sent and the final details will be worked out. The money will then be part of the 1990 budget. The amount of the investment in the cooperative effort is expected to be 10

billion yen, primarily consisting of grant aid since Prime Minister Takeshita strongly supports this. The plan that has been formulated up to now is to gather together environmental observation data from regional centers (sites to set national standards) to be established at 180 locations across the nation with the primary center to be in Beijing. China already has 2,000 monitoring sites nationwide, and regularly monitors the status of its polluted air and water, and the data from these will be used comprehensively at the sites which will set national standards.

The primary center, in addition to analyzing such collected data and making use of pollution prevention measures, will be a center to train and educate specialists in environmental preservation.

In China, industrial development is moving at a fever pitch along with modernization, and at the same time, polluted air and water are becoming serious problems. Prime Minister Li Peng, as a consequence, is adopting a positive attitude toward the building of this center.

On the other hand, Japan, in addition to this, plans to build an environmental research and training center with the use of grant aid (to the extent of 2 billion yen) in the Rangsit district in the suburbs of Bangkok, Thailand.

The basic design will be put together by the middle of this month, and the ground breaking will take place in June. As industrialization of developing countries continues to advance, Japan is expected to receive one request after another for financial cooperation with environmental preservation projects, especially from the ASEAN region. The government intends to respond positively to these.

Article Comments on Foreign Takeovers

OW2804022789 Tokyo ASAHI EVENING NEWS
in English 24 Apr 89 p 4—FOR OFFICIAL USE ONLY

["Weekly Economic Review" column by George Murakami: "Takeover, U.S. Style, Arrives in Japan"]

[Text] Takeover, American style, has landed in Japan. T. Boone Pickens, described as a corporate raider, has his eye on Koito Mfg. Co., a leading Japanese maker of sealed-beam headlights and other automotive lighting items. He already has a holding of 20.2 percent in Koito stock. Koito shares, which used to trade around Y [yen] 500, are now up to Y3,800 in Japan's superheated stock market though not as a result of Pickens' operations.

Pickens bought his holdings in Koito from Kitaro Watanabe, president of Azabu Motors, an imported car dealer who has grown wealthy on dealings in stocks and real estate. This makes Pickens the top stockholder in Koito ahead of Toyota Motor.

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Pickens, now in Tokyo, held a press conference last week at which he said this was a long-term investment—in Japanese parlance, a “stable stockholder,” a major stockholder who sides with management and hangs on to his shares—that he would try to help the company expand its business at home and abroad and make better use of its advanced technology and added that this was not a raider operation for short-term profit. He also denied he would try a hostile takeover.

Wary of the Intruder

But Koito's management is wary of this abrupt foreign intruder. In a conference with Pickens later in the week, it turned down his request for a seat on the board of directors.

Kabutocho and Japanese business are generally a bit puzzled by Pickens' moves. With the yen so strong and Japanese stocks so vastly overpriced, Koito hardly looks like a bargain for the foreign investor. What is Pickens really after? What does he hope to get out of Koito? Does he have his eye on other targets? What are his relations with Watanabe, the master market operator?

With big takeovers, sometimes on a multibillion dollar scale, so widespread in the United States, and Europe and Japanese firms buying up companies abroad, it was inevitable that Japanese enterprises themselves would become targets for foreign bidders. In fact, the first foreign takeover operation in recent years came a couple of years ago in which a Los Angeles investment banking outfit and its British partner a London brokerage firm, tried to get control of Mini Bearing, the world's largest manufacturer of miniature bearings. Mini bearing itself had expanded aggressively abroad, buying up foreign firms—90 percent of its production now comes from overseas plants. At home, it set its sights on Sankyo Seiki, a maker of micro-motors and electronic components. Then, ironically enough, Mini Bearing became the target for takeover. The Los Angeles firm eventually gave up, sold out at a profit. Mini Bearing, too, lost in its operation against Sankyo Seiki.

Hostile Takeovers

Hostile takeovers are frowned upon in Japanese business as bad form, contrary to the philosophy of live and let live. Also, inbred company loyalty is strong in Japan, and mergers have been often blocked by opposition from management, middle management and even a company's labor union. This could apply especially in the case of a foreign takeover. And, as I have said, the strong yen and the high price of Japanese shares do not make firms here look like bargains to foreign investors. For these reasons, I do not believe there is going to be a sudden rush of people like Pickens coming into Tokyo.

Still, securing a solid foothold in a strong, growing economy like Japan's, particularly in the center of industry and trade rather than on the fringes of the service

areas, would hold advantages for multinational enterprises. And since Japanese companies are now expanding so vigorously abroad, the Japanese Government, as a matter of simple reciprocity, cannot put up obstacles to foreign entry. Many Japanese banks and also foreign banks here, securities houses and other financial service firms are setting up M&A (mergers and acquisitions) divisions and buying interests in foreign companies with expertise in this field. Their initial business will come chiefly from Japanese firms seeking to expand abroad, but their services in time will be for Japanese firms aiming at domestic targets and for foreign entrants.

Bank Rate Hikes

Elsewhere on the economic front, matters continue to seethe and bubble below the surface but there have been no major developments. West Germany's Bundesbank has raised the discount and Lombard rates, Belgium and the Netherlands have followed suit and there is talk the U.S. Federal Reserve may also act. This puts pressure on the Bank of Japan which thus far has remained mute. An explosion on a Shell North Sea oil platform has cut British output by a quarter and world oil prices have soared, a situation aggravating the previous announcement of cuts of up to 40 percent in OPEC oil exports.

The trade imbalance problem shows little improvement. Japan's trade surplus, \$84 billion in fiscal 1987, is now likely to grow to about \$90 billion for fiscal 1988. The government's calculation that the strong yen and the expansion of domestic demand would pull in more imports and divert goods from export channels into the domestic market is not working quite as expected. The expansion of domestic demand has created a booming domestic economy but exports are also booming. Japanese goods remain competitive on world markets, perhaps less on price but very much so on product quality and performance.

The U.S. trade deficit, once up to \$170 billion annually, is now running at a yearly pace of about \$130 billion, a considerable improvement but still big. But will improvement continue? U.S. industry is already running at close to full capacity and labor is getting tight. Exports of late are making only small gains and imports are still strong. American industry is now heavily dependent on imported parts and components—70 percent of the parts for an IBM computer model are imported—and as production rises, so do imports of parts. The Bush administration has yet to come up with any real new program for the trade deficit problem.

However, U.S.-Japan trade problems this year may not be as heated as they were last year. On the various remaining problems such as rice. The Japanese distribution system and U.S. entry into telecommunications, [sentence as published]

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On the political front here, the opposition parties got together last week in an attempt to forge a common program. But all the opening session got was more rhetoric about clean politics and a better Japan. In fact, on the hard policy issues, the Komeito, Democratic Socialists and the United Social Democratic Party are closer to the Liberal-Democratic Party than they are to the Socialists on foreign policy, defense, atomic energy and management of the economy. Gov. Kazuji Nagasu of Kanagawa Prefecture, in off the floor remarks, expressed serious doubt the parties could arrive at a meaningful common program. With opinion polls showing the opposition well ahead of the LDP, the danger is that Japan may be getting a government which does not know what it should do or how to do it.

Paper Discusses Global Duty to Disarmament
OW2804155089 Tokyo ASAHI EVENING NEWS
in English 24 Apr 89 p 3—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 23 April editorial: "Japan's Global Duty"]

[Text] Once upon a time, there was a Russian tsar who had six daughters and whose greatest worry was that someday his tsardom would be attacked by the surrounding European powers. Eventually, the Russian sovereign worked out a plan whereby he married off all his royal daughters to the neighboring kings.

"Back then, this was a brilliant way to foster trust. But times have changed. Today, it is not royal princesses but the world's scientists who convey messages of mutual trust."

The remark, made by a Soviet scientist, created excitement among the participants and audience gathered in Kyoto for the United Nations Conference on Disarmament Issues. It was one of the most stimulating moments of the international convention, which came to a close Saturday.

Experts from over 30 countries around the world attended, with all participants speaking in the capacity of private individuals. Although the convention did leave something to be desired in that it did not arrive at any specific conclusions, there was one definite advantage: The honest, unadulterated viewpoints of experts throughout the world were made explicitly clear, precisely because the entire four days of talk were based on free discussions.

The conference was highlighted by a number of disagreements—between countries who possess nuclear armament and those who do not, between those who seek immediate and unconditional abolishment of chemical weaponry and those reluctant to do so, between adherents of the theory of nuclear deterrence and those

opposed to that approach. Because the conference was characterized by a multitude of different views to begin with, it was quite unrealistic even to expect any unanimous meetings of opinion.

Despite the many obvious points of disagreement that did surface, we, nevertheless, wish to pay special attention to the fact that the Kyoto conference succeeded in producing some common grounds and not a few signs that sound moves have been started toward eventual agreement. The existing discords, notwithstanding, the world's trend is clearly changing.

A good example is the U.S.-Soviet relationship. The delegates of both countries had for long stuck to sharply opposed positions vis-a-vis the validity of deterrence and the necessity of underground nuclear tests. But, as has recently been made public by Pentagon seismic experts, Soviet-American cooperation regarding on-the-site verification seems to have entered a stage exceeding all previous expectations.

Polemic views, such as those that argue that the theory of deterrence is absolute and categorical and/or criticize the position of nuclear abolition as being ridiculous, are now cold-shouldered. The Kyoto conference was conspicuous in that participants, one after another, voiced views favoring slow but sure, step-by-step progress.

The greatest factor behind this change is the INF treaty, which was concluded in 1987 and is aimed at making a clean sweep of intermediary nuclear forces. As all the participants in Kyoto unfailingly pointed out, it was this agreement that served as the primer to reinstate disarmament and give it a new lease on life.

While welcoming the new direction we are moving, we, nevertheless, have strong misgivings about the points of disagreement which were put into clearer relief in Kyoto. In particular, the problem of the proliferation of nuclear arms and chemical weapons has assumed extremely serious dimensions.

The Nuclear Nonproliferation Treaty (NPT), which aims at preventing the number of countries possessing nuclear weapons from increasing, next year will mark its 20th anniversary. Yet, in Kyoto, experts from Third World countries which do not have nuclear arms, like Brazil, vehemently attacked the NPT's "unfairness and injustice." Views were expressed that some NPT signatory-countries may even opt out if the situation remains as is.

Even as regards the total abolition of chemical weapons—an issue over which one would think there'd be unanimous accord—reactions on the part of Third World participants were mixed. One participant even introduced a linkage theory—that the complete abolition of nuclear arms is the prerequisite for any total banning of chemical weapons.

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An ineradicable sense of mistrust toward the world's economically advanced societies lurks in the background of such Third World positions. They believe the nuclear-have countries are beefing up their own nuclear forces while using the NPT to tie the Third World's hands. So they suspect that the end result of the move to prevent proliferation of chemical weapons could very well become the same as the NPT's.

There is an element of truth in the Third World's argument. Yet, who can deny that the NPT is producing certain, definite results? The total banning of chemical weapons, moreover, is an issue requiring immediate attention.

The world's industrially advanced countries need to make further progress toward disarmament, and they need to guarantee the Third World's security. And, for their part, the Third World countries need to exercise restraint in acquiring chemical weapons and new, more powerful missiles. Toward this end, we feel it is the duty of Japan, as a nonnuclear, economically advanced country, to play the role of an intermediary in helping bridge the gap.

Enterprises Recognition of Foreign Investments
OW2704235489 Tokyo MAINICHI DAILY NEWS
in English 23 Apr 89 p 2—FOR OFFICIAL USE
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[Editorial: "Friction Over Investments"]

[Text] A local Philadelphia newspaper in the United States published an interesting cartoon.

It showed an American worker wearing a baseball cap and marching in a demonstration while carrying a placard on which was written the words: "Buy American!" Upon following this man's gaze, one can see in the left-hand corner a man of short stature. Obviously a Japanese, he too carries a placard. It reads: "Buy America!"

The increasing Japanese purchase of American real estate and investments in U.S. corporations seems to be causing troubles. As symbolized by this cartoon, in addition to the trade friction up to now, a new phase which might be called an "investment friction" has been newly added.

At the beginning of last week, Tokuyama Soda temporarily abandoned its plan to buy up General Ceramics (GC). A decision was reached to restudy the plan.

The reason for the restudy is that GC has a munitions division and the objection was raised that the sale might infringe upon the clause in the new Commerce Act which restricts the foreign purchase of an enterprise needed for America's security.

The clause itself is open to an expanded interpretation of security needs and might become a pretext for the protection of U.S. enterprises to an unnecessary extent.

On the other hand, the purchase by a Japanese enterprise of a foreign enterprise having a munitions division is undesirable. In that sense, a restudy of the plan is only natural and it is a wise move.

In the background, however, the surge of Japanese investments in the United States can only be regarded as phenomenal. Direct Japanese investments in the United States last year amounted to 15 billion dollars. Japan surpassed Britain to become the top-ranking investor.

As the result, the investments balance reached 48,560 million dollars at the end of last year. It is believed that as far as this phase is concerned, Japan came second after Britain.

Drawing particular attention is what is known as M&A (mergers and acquisitions). According to an estimate by one American bank, there were 130 cases of M&A by Japanese enterprises in the United States last year for a total value of 12,700 million dollars, more than twice the amount in the previous year.

In regard to real estate investments also, while they were limited to less than 1 billion dollars prior to 1985, there has been a sharp rise to about 7 billion dollars. This is because the sharp rise of the yen since 1985 has made it possible to obtain American real estate and enterprises at a comparatively low cost.

Investments in real estate aside, direct investments in enterprises have the effect of increasing local employment and activating the regional economy.

Another aspect, to which relatively little attention is being given, is that the Japanese enterprises advancing to the United States play a role in expanding American exports and are advantageous for the American economy. According to an estimate by the Japanese Foreign Ministry, nearly 15 percent of American exports are provided by Japanese capital.

Despite this, the Japanese advance is being looked at with suspicious eyes. The reason for this seems to be the rapidity of the advance. On the part of the Japanese enterprises, M&A make it possible to purchase existing enterprises and facilities intact.

This has led to a concentrated flood which has aroused local antipathy. Those concerned should act with care.

Another thing is that as long as Japanese enterprises are engaging in M&A overseas, the reverse situation of foreign enterprises being able to do the same in Japan should be recognized.

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Peace Conference Planned for Okinawa

OW2904225789 Tokyo JPS in English 0928 GMT
27 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Apr 27 JPS—1989 Japan Peace Conference was decided to be held on November in Naha City, Okinawa, in the first meeting of the organizing committee. The committee confirmed the "Appeal for 1989 Japan Peace Conference" which aims at expanding the current for dissolution of all military blocs and removal of foreign bases.

21 representatives from 16 organizations, including the Conference of Trade Unions for Promotion of a United Front (Toitsu Rosokon, CTU-UF), Japan Council Against A and H Bombs (Gensuikyo), Japan Peace Committee, attended the meeting of the organizing committee.

The "appeal" said that confronting military blocs are instruments to strengthen the system for nuclear war, to violate the right of national self-determination, and to destroy people's lives. Therefore to dissolve these military blocs is the basis to protect the sovereignty of nations and peace, said the appeal. It requested to participate in the Japan Peace Conference for the abolition of Japan-U.S. military alliance and withdrawal of bases.

United States

Effects of FSX Accord on Relations, Principles

Nullification of Arms Export Policy

OW0105145189 Tokyo MAINICHI SHIMBUN
in Japanese 30 Apr 89 Morning Edition p 3—FOR
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[Text] Japan-U.S. consultations on a plan to jointly develop a next-generation support fighter (FSX) for the Air Self-Defense Force came to a final settlement on 29 April with the Japanese side accepting almost all U.S. demands. "What had remained unclear between the two countries was made clear" through the latest bilateral consultations. But there still remain a number of unresolved problems in carrying out the joint development project and, moreover, it is feared that Japan's commitment to transfer new technologies concerning FSX to the United States may result in Japan's three principles for the export of arms being compromised. This is likely to come under fire at the Diet.

On a 40-percent work share for the U.S. side in the production stage, some quarters in the Defense Agency argued: "It is inconceivable that the U.S. aviation industry, which produces a monthly average of several hundred aircraft, will show a zealous interest in the production of FSX numbering no more than a hundred and several dozen in all." The concern that, if a U.S. work share should fall short of 40 percent, it might develop into a political issue has not died away.

Originally, under a joint development project the participating countries would finance equally, start from scratch, and produce the developed products according to their respective needs. However, in the case of the FSX, an abnormal form was taken: The FSX, which will be used by Japan only, will be produced with Japanese capital but with technology provided by the United States. Hence, it was difficult to determine work shares.

The Japanese side had strongly called for the United States to provide the F-16 fighter's flight control computer software (source code) but ended up accepting its limited use, after all. The Defense Agency plans to independently develop those source codes that are not to be made available.

New technologies to be transferred to the U.S. side include not only those results of development that are to come under the jurisdiction of the Defense Agency but also radar and other technologies developed by Japanese businesses independently. Regarding the method of transferring these technologies, the Defense Agency acknowledges the possibility of some technologies being transferred to the United States on a private basis for civilian demands. It says, "There are some technologies to be made available to the United States as before in accordance with the arrangements on the transfer of arms technology and there are some others that are not." In case the United States wants to transfer to third countries the technologies provided to it at the government-to-government level, the Japanese Government's concurrence is necessary, but U.S. businesses can freely export to third countries those technologies transferred to them on a private basis.

It is quite conceivable that the technology developed by Japan for the fighter and being transferred to the United States for civilian demands could end up in the hands of a party to a conflict. If this should happen, it might reduce the "three principles for arms export" to mere form.

Tazawa Hopes Accord Cements Ties

OW0205131089 Tokyo JIJ in English 1240 GMT
2 May 89—FOR OFFICIAL USE ONLY

[Text] Ito Islands, May 2 (JIJ PRESS)—Defense Agency Director-General Kichiro Tazawa Tuesday expressed his hope that the FSX accord with the United States will help establish more reliable defense ties between the two countries.

The comment came after the joint support fighter development project for Japan's Air Self-Defense Force was officially sent to the U.S. Congress for endorsement.

The notice of the project to Congress has cleared the way for starting development work, Tazawa told reporters.

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The defense chief visited this Pacific island to the south of Tokyo to inspect maneuvers of the Self-Defense Forces.

Paper on Appointment of New U.S. Ambassador
OW2704125089 Tokyo MAINICHI DAILY NEWS
in English 26 Apr 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "The New American Ambassador"]

[Text] Michael Armacost, confirmed by the U.S. Senate as the next ambassador to Japan, is expected to arrive in Tokyo to take up his post in May. This will formally put the Bush administration's conduct of diplomacy on its track with Japan, which has been nearly six months without an American ambassador since Mike Mansfield left.

Armacost comes to Japan amid its domestic political uncertainties following Prime Minister Noboru Takeshita's decision to resign, and renewed tension in its relations with the United States, as symbolized by the controversy over the co-development of the FSX, Japan's next support fighter, which has escalated to a major political issue with no sign of settlement in sight. Once again a "Japan bashing" atmosphere is surfacing in the United States.

Over the past two decades serious friction has become the norm in Japan-U.S. relations. As long as one country cannot exist without close ties with the other, the bilateral relationship should probably be accepted as an unavoidable permanent mix of cooperation and confrontation.

Japan, then, must address the situation with the understanding that friction is inevitable in its dealings with the United States. What is difficult, though, is that the type of friction is changing radically.

The issues Washington is raising are no longer confined to its huge trade deficit or burden sharing in defense, but have extended to the domain of high technology and intellectual property. It is a change from a quantitative to a qualitative friction, in which trade and defense are being treated as one inseparable issue, making a quick settlement virtually impossible.

In Congress, inflammatory remarks such as "economic Pearl Harbor" and Japan's "obsession with exports" are being made by responsible members. A senior Japanese Foreign Ministry official found during a recent trip to the United States that dissatisfaction with Japan is spreading among business leaders, who have hitherto been relatively free from such feelings.

The first task for the new American ambassador will be to expedite negotiations toward alleviating the trade imbalance and promoting defense burden sharing. Japan has great hopes that he will be firm bridge between the

two countries, and help develop their relations without any serious missteps in broad perspective, which at once encompass cooperation and confrontation, concert and contest.

A scholar and diplomat, and having taught in a Japanese university in his younger days, Armacost reputedly knows Japan very well, and has a good understanding of the Japanese way of thinking, as well as its history and culture. But as a career foreign service officer, he will be appreciably more businesslike than his predecessor, who was able to speak directly to the president on the telephone and at times chide Congress.

Actually, Armacost has emphasized that an American ambassador to Japan must stand at the forefront of trade problems at his confirmation hearing before the Senate Foreign Relations Committee. Even though he was speaking to senators, he struck observers as a skilled hard bargainer.

At the same time, Armacost told the committee that building on what Mansfield had achieved, he would pursue broad dialogue with his Japanese counterparts to prevent misunderstanding.

Unless both sides maintain a firm understanding of the importance of their mutual relationship, the danger exists now between Tokyo and Washington that they may escalate their feelings against each other.

Because of this atmosphere Japan feels it all the more pressing to put its thinking and policies across to the Bush administration and Congress, and is counting on the new American ambassador.

We are not against trying to settle, one by one, the pending problems by minute and exhaustive negotiations, but inflating out of proportion individual issues or unnecessarily politicizing them will only lead to more misunderstandings with the chances of settlement even more remote.

Article Views Mansfield's Defense of Ties

OW2904224389 Tokyo THE JAPAN TIMES
in English 28 Apr 89 p 20—FOR OFFICIAL USE ONLY

[Special by Ayako Doi]

[Text] Washington—Breaking several months of his post retirement silence, former U.S. Ambassador Mike Mansfield has begun to speak vigorously about the centrality of Japan to U.S. interests—an unpopular undertaking in Washington these days.

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"As we proceed toward the 1990's, the destinies of the United States and Japan become increasing intertwined," Mansfield said in a speech to the Philadelphia World Affairs Council last week. "The question is not how to cope with this relationship, but how to guide it and lead it."

He expressed dismay about the amount of attention, often negative, given to Japanese investment in the U.S., despite the fact that the British and the Dutch hold more American assets than the Japanese. "Nothing is mentioned of the fact that the U.S. is the biggest (foreign) investor in Japan," he added.

He also commended Japan for increasing its defense spending and foreign aid in recent years. "Demanding Japan to spend more on defense than it is doing now reflects a disturbing lack of understanding of the history, the political situation of the region, and the U.S. future interest," he declared.

Mansfield's public defense of Tokyo's trade and defense policies comes at a time when a sort of modern-day "yellow peril" rhetoric about Japan's high-tech trade advantages has begun to echo through Washington. One recent poll even showed that a majority of Americans view Japan as bigger threat to U.S. national security than the Soviet Union.

While "Japan bashing" has long been a popular pastime among some policymakers here, it was never considered a "correct" thing to do. In fact, Washington's most quoted phrase to describe the U.S.-Japan relationship has been Mansfield's own. He calls it "the most important bilateral relationship in the world, bar none."

But things have taken a turn for the worse in recent months, as the U.S. trade deficit with Japan has begun to worsen, even with a greatly weakened dollar.

"Speaking for Japan these days is almost as unpopular as speaking for Exxon," observed an aerospace industry analyst, referring to the giant oil company whose tanker caused the worst oil spill in the history in Alaska a month ago.

This atmosphere is particularly evident in the current debate over the U.S.-Japan joint project to develop and produce Japan's next-generation fighter plane, the FSX. The agreement was signed last November, and Japanese officials thought it was a finalized deal until the Commerce Department and its allies in Congress raised objections several weeks later.

While opponents of the project have been flooding op-ed pages around the country with articles arguing that the agreement will one-sidedly benefit Japan by handing out advanced U.S. technology at a bargain, supporters have been conspicuously silent in public forums.

As an indication of how politically risky it is even to show an understanding of Japan's point of view, Rep. Stephen Solarz, chairman of the House Foreign Affairs Subcommittee on East Asia and the Pacific, who recognizes the importance of maintaining good relations with Japan, quickly denied a report that named him as one of the few supporters of the FSX venture. "I have not taken a formal position yet," he said at a press conference on the day the article was published.

Mansfield said in an interview that he was surprised by the persistence of negative feelings about Japan in Washington. "I thought there might be some concern about the (U.S.-Japan) relationship, but that things would be a little better on the basis of what we have accomplished, especially in the last year," he said.

As examples of those accomplishments, Mansfield cited Japan's promise to open its beef and citrus markets to imports, the conclusion of a bilateral agreement on science and technology exchange, agreement on U.S. participation in public construction projects in Japan, and "what I thought was a very good agreement we reached in November on the FSX."

Asked whether he intends to offer his views to his former colleagues on Capitol Hill, Mansfield said: "I have a habit of not going to places when I leave them." But he added: "Anybody who wants my opinion will get it."

The trouble, however, is that not many in Washington, knowing his views on the U.S.-Japan relationship, want to call on him to speak, when one can make more political hay by criticizing Japan. In the five months since he has been back, he has addressed only two groups, the Philadelphia Foreign Affairs Council and the Asia Society of Washington, and given a few interviews.

But being a former academic, Mansfield believes that reason will prevail at the end. "I think there is a need for knowledge, and I think it's coming, although it will take a little time," he said.

Although Mansfield may sound overly defensive of Japan's position to some in Washington, he insists: "It's not a matter of speaking out for Japan. It's a matter of laying the truth out for the people to understand what the realities of the situation are." And he added: "Truth comes free."

*** Disagreements About Semiconductors Intensify**
4/060684 Tokyo MAINICHI SHIMBUN
in Japanese 4 Mar 89 p 9—FOR OFFICIAL USE ONLY

[Text] Defiant Reaction by MITI

U.S. Trade Representative [USTR] Hills testified on 2 March at a Congressional hearing regarding the problem of the lagging share of U.S.-made semiconductors in the Japanese market, and vowed to "conduct a review

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including additional sanctions against Japan." The Ministry of International Trade and Industry [MITI] reacted sharply to this, saying: "The import volume of U.S.-made semiconductors has been rising steadily. The demand for additional sanctions is unreasonable." However, behind the demand from the American side is a contention that a "promise" was made during the signing of the Japanese-U.S. semiconductor agreement in 1986 to raise the share of U.S.-made semiconductors in Japan to 20 percent by the end of 1991, and persuasion of the U.S. side is likely to face rough sailing. Meanwhile, the monitoring of semiconductor exports bound for third countries which is being implemented by Japan on the basis of the agreement faces a charge of violation of GATT and a demand for correction from the EC. MITI thus finds itself caught "between the devil and deep blue sea."

The Japanese-U.S. semiconductor agreement signed in September 1986 calls for: 1) expanded participating opportunities for foreign semiconductor companies, and 2) enforcement of monitoring of goods bound for third countries to prevent dumping. However, a debate along parallel lines has been going on regarding interpretation of the negotiations between the U.S. side, which contends that the Japanese promised a 20-percent share, and the Japanese side, which denies that "it ever promised anything."

Following the signing of the agreement, MITI requested that domestic semiconductor user companies promote the import of U.S.-made semiconductors. The industry responded with efforts such as formulating an action plan for the expansion of imports. Actually, the sales volume of foreign-made semiconductors (the majority is U.S.-made) has doubled from \$248 million at the time of the signing of the agreement (July-to-September quarter of 1986) to \$490 million in the July-to-September quarter of 1988, with the share rising from 8.6 percent to 10.9 percent.

However, the U.S. share has remained at a 10-percent plateau during the past year, and USTR Hills testified that "at the current pace, it will be difficult to reach the 20-percent mark by the end of 1991."

Meanwhile, regarding the monitoring of goods destined for third countries, the GATT directors conference in May of last year handed down a decision of guilty, and demanded corrective action by Japan. MITI dispatched Deputy Director Mizuno of its Machinery and Information Industries Bureau to the United States on 26 February to conduct negotiations in order to submit a corrective plan to the GATT directors conference on 6 March. However, the U.S. side showed dissatisfaction with the Japanese plan that centered on an easing of its monitoring, and a solution to the problem has become difficult.

U.S. sanctions against Japan on semiconductors were invoked in April 1987, and about \$300 million in retaliatory taxes were imposed on television sets and personal computers. Although sanctions against dumping were subsequently removed, about \$165 million in sanctions remain in effect on the grounds of an inadequate import share of U.S.-made products.

Regarding the request by the Semiconductor Industries of America [SIA] to the USTR for additional sanctions against Japan, Japanese semiconductor industry circles state with puzzlement: "The Japanese side is doing its best, and cannot understand their true intentions." Particularly in view of the fact that a seminar is scheduled to open on 6 March in California with the participation of the Electronic Industries Association of Japan [EIAJ], the Foreign Semiconductor Users Council and the SIA. Given its objective of providing explanations concerning the Japanese market, and the fact that a search will be made for ways to expand markets and to promote purchasing efforts, there is even the view that "perhaps it is a tactic to strengthen their [the SIA] voice."

At the industry level, the Japanese-U.S. semiconductor industry talks held in Japan in June of last year resulted in a split between the U.S. side, which demanded a manifestation of share expansion, and the Japanese side, which contended that "shares are the outcome of efforts on both sides," thus failing to produce an agreement. Nonetheless, unofficial talks have subsequently continued between the two sides with efforts made toward mutual understanding. As for efforts by individual companies to expand purchases, Hitachi increased its purchases of foreign-made semiconductors to \$8 billion in FY86, \$10 billion in FY87 and \$14 billion (projected goal) in FY88. Also, NEC [Nippon Electric Corporation] has held separate talks with U.S. makers concerning purchases, and its buying ratio has already reached 20 percent. Meanwhile, Toyota Motors announced on 21 February that it plans to use U.S.-made semiconductors in its Corolla model cars.

Use of U.S. Trade 'Weapon' Discussed

OW0105034689 Tokyo ASAHI EVENING NEWS
in English 27 Apr 89 p 5—FOR OFFICIAL USE ONLY

["Comment and Analysis" column by Ken Koshiba: "America's New Trade Weapon"]

[Text] The United States is moving to use a new trade weapon in dealing with Japan and other trading partners, determined to trim its huge trade deficits. Targets of that weapon are countries that maintain "unfair" trade barriers to U.S. goods and services.

The name of that legal device is "Super 301"—a section in the 1988 Trade act that gives Washington authority to slap trade sanctions on such countries. To avoid stiff sanctions they would have to dismantle the barriers identified by Washington and buy more from the United States.

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Tempers are already rising in this country, the most likely target of retaliation, as the Bush administration prepares to send a report to Congress outlining foreign obstacles to U.S. exports. The emotional boiling point will be reached toward the end of next month when a hit list of "unfair" trading partners will be revealed.

The list itself will not be a signal of immediate retaliation but only a warning that the U.S. Trade Representative (USTR), which now has greater negotiating powers under Super 301, is ready to start negotiations with the governments of "priority" or targeted countries. The crunch will come when the talks have collapsed, making retaliation unavoidable.

One official at the International Trade and Industry Ministry has described the current state of Japan-U.S. trade relations as "potentially explosive." Naturally Tokyo is trying hard to avert an "explosion"—inclusion of Japan in the hit list, though reports indicate this country will be targeted anyway.

What looms ahead, assuming that Japan will be targeted, is a difficult process of negotiation in a variety of "problem sectors," including telecommunications (car phones) and electronics (semiconductors). Institutional barriers such as government regulations on distribution would also come under fire. But the farm sector, notably rice, would be put on the back burner pending further agreement in the Uruguay Round of international trade talks.

The going would be rough, for a number of reasons. First, the climate of negotiation would be different—America dealing with Japan as a major challenge to its competitiveness, and Japan trying to resist what it sees as strong-arm tactics for extracting quick concessions.

Second, with America concerned as much with an equality of results as with an equality of opportunity, American negotiators would seek specific guarantees from the Japanese side, as they did in the chip talks. America is seeking a 20 percent share of the Japanese chip market, citing a Japanese "promise."

Third, the leadership crisis in the government and the ruling party would cast a shadow over the negotiations, possibly limiting the ability of Japanese negotiators to present credible solutions. The danger is that Japan might work out easy solutions, such as an "emergency import plan," that could create problems in the future.

The case in point: the supercomputer deal made during the period of the Nakasone Cabinet. Some of the machines bought by NTT firm were resold at a discount to Recruit Co. That deal, of course, is part of a big scandal that is now rocking the nation's political world.

Editorial Views Change in U.S. Relations

OW 2704123089 Tokyo THE DAILY YOMIURI
in English 26 Apr 89 p 2—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 25 April editorial: "Japan-U.S. Relations"]

[Text] The U.S. Congress is conducting a drastic review of its policies toward Japan from trade to security in an effort to regain U.S. competitiveness.

With a change in U.S. policies toward Japan, bilateral friction is expected to intensify and spread even into cultural fields. Indicating the change in policy is the conflict over the joint U.S.-Japan development of the next-generation support fighter, called the FSX.

The Reagan administration is dealing [as published] with the FSX, separated economic problems and defense issues. However, the administration of President George Bush has abandoned this position. Congress took up this issue from the viewpoint of trade and technology, forcing renegotiation of the FSX agreement between the two nations.

Japan gradually surpassed the United States in such production lines as TV, steel, automobiles and semiconductors. But Japan has been slow in opening its agricultural market and restructuring its distribution systems. This has resulted in the United States applying even more pressure to this country.

The United States is now worried that Japan may soon excel in the aircraft and electronics industries through joint FSX development.

Therefore, the United States is no longer viewing defense as a separate category in the relationship with Japan but is including it in a comprehensive security policy along with trade and technology.

Japan considers the U.S. opposition to the FSX agreement unjustified. However, it would be ill advised for Japan to respond emotionally which would only delay solution of the problem. Japan should act coolly and consider the U.S. domestic situation.

Those in the United States who are concerned about the Tokyo-Washington relationship are warning about one-sided U.S. criticism. Former U.S. Ambassador Mike Mansfield in his article entitled "The U.S. and Japan: Sharing Our Destinies" in the latest issue of Foreign Affairs criticized both nations.

He said Japan must make further efforts to open its market. Mansfield also criticized Congress and the mass media for misunderstanding Japan-U.S. relations and that the United States should be held more responsible for the relationship.

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But his words alone are not enough to overcome U.S. misunderstandings about Japan. The Japanese themselves must solve this problem.

Japan-U.S. relations should work well, if Japan's technological and financial power supports U.S. military power and the dollar as the key world currency. However, U.S. citizens now see this as a Japanese invasion of their economy. This must be overcome to stabilize relations.

The United States is not being critical of Japan alone but of Asia's newly industrialized economies as well. Therefore, Japan's response is of interest Asia. [as published]

It is regrettable that opening of Japan's market to U.S. farm products is experiencing a regressive trend recently. This may be due to the inability of the government to respond to international problems because of damage to its image resulting from the Recruit scandal.

Important on Japan's political agenda are the Paris Summit, the House of Councillors election, the extraordinary Diet session and election of the Liberal Democratic Party president. How long will political confusion continue in this critical period?

Japan's foreign policy has been based on the cornerstone of the Japan-U.S. relationship. The stability and strength of the government must be restored to deal with this relationship in need of reconstruction.

Bilateral Relations Seen at 'Crossroads'

OW2704115689 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 25 Apr 89 Morning Edition p 9—FOR
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[By correspondent Kumamura]

[Text] Washington, 25 Apr—Japan-U.S. relations saddled with many pending issues are at a crossroads after Prime Minister Takeshita announced his resignation. The Bush administration, which has formulated its policy toward Japan at long last, views "Takeshita's resignation" as inevitable and is showing no sign of softening its past tough stance toward Japan. Reflecting domestic discontent with Japan, the administration is expected to relentlessly push for its demands to the "post-Takeshita cabinet" which will take a strong tint of an interim government. Therefore, Japan-U.S. relations are likely to be tense.

When the issue of joint development for the next-generation support fighter (FSX) to be used by the Self-Defense Forces began deteriorating, there were opinions among some officials in the U.S. Government that "we should no longer push" in consideration of the Takeshita cabinet's standing, which was shaken by the Recruit financial scandal. However, the advocacy of sympathy with Prime Minister Takeshita was swept

away by mounting discontent with the never-shrinking trade deficit with Japan and technological nationalism to maintain hegemony in the technological field.

In contrast to the Reagan administration, which had settled bilateral issues based on the personal relationship of "Ron-Yasu," the Bush administration plans to deal with pending issues through businesslike consultations. The Bush administration must pay attention to hardline voices against Japan in the U.S. Congress since the Republican Party supporting the administration remains a minority in the Congress. It is also necessary for President Bush to gain high marks in his policy toward Japan if he seeks reelection in 4 years.

Although the Bush administration is skeptical about the restructuring line promoted by General Secretary Gorbachev, it is true that Japan's relative importance as an ally in the U.S. foreign policy has been diminished as new detente (the relaxation of tensions) has made progress in Asia. The existence of Japan challenging the U.S. technological hegemony may become a threat to the United States.

The Bush administration began restudying the U.S. policy toward Japan when investigations into the Recruit financial scandal reached people close to Prime Minister Takeshita. On the basis of the belief that "there will be no change in the policy of the Liberal Democratic Party [LDP] government toward the United States," the administration is said to have firmed up its basic policy toward Japan, including the FSX issue and the application of Article 301 (unfair trading nations: specific acts: sanctions) of the omnibus trade law to Japan.

Some people in the LDP will certainly step up their criticism of the U.S. hardline stance toward Japan's import liberalization of rice and the FSX issue on the eve of the upper house elections scheduled to be held in July. The United States is expected to move to argue against the criticism. With pending issues remaining unresolved, the two countries may be embroiled in a vicious circle in which they criticize each other based on their nationalism. Therefore, Japan is likely to be compelled to make extremely difficult choices in the future.

Bush Administration Attitudes Affect Policy

OW2804133789 Tokyo ASAHI EVENING NEWS
in English 22 Apr 89 p 3—FOR OFFICIAL USE
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[ASAHI SHIMBUN 22 April editorial: "Look, No Japanese Hands"]

[Text] When two countries have close relations, there are bound to be many disputes. In order to get such disputes under control, it is necessary that both sides have experienced people in the right places.

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There is a new sense of tension between Japan and the United States. This is seen in the FSX fighter plane development issue. One reason for the problems is that Japanese political leaders are so preoccupied with the Recruit scandal that they cannot properly respond to the situation. But the problem is exacerbated by subtle changes in personnel and Japan policy under the Bush administration.

The U.S. Senate has approved Michael Armacost, former undersecretary of state for political affairs, as the new ambassador to Japan. Armacost, together with William T. Breer, the new minister [as published] to Japan, is well-informed about Japan, and is expected to play an important role in smoothing over ruptures in Japan-U.S. relations.

But we are concerned about some changes we have noticed in official Washington since George Bush was inaugurated.

First, there are few people versed in things Japanese in the upper echelons of the new State Department. Secretary of State James A. Baker 3rd met with many Japanese business and political leaders while he was treasury secretary, but Deputy Secretary of State Lawrence S. Eagleburger is a specialist on Russian and European affairs. Undersecretary of State for Political Affairs Robert M. Kimitt, a lawyer, was moved over from the Treasury Department. The nominee for assistant secretary of state for East Asian and Pacific affairs, who is to take charge of Japanese affairs, has changed again and again, and the affair was settled with the naming of Robert Solomon. But Solomon is a China hand.

Baker likes doing business with the help of his own brain trust rather than assigning big jobs to professional diplomats. One of the members of his trust is his counsel, Robert B. Zoellick, who has only begun to learn the art of diplomacy. Another close associate, Dennis B. Ross, director of the policy planning staff, is well known as an expert on Soviet military and Middle-East issues. It may take some time for these top aides to obtain a thorough knowledge of Japanese issues and a broad grasp of the bilateral relationship.

The second change is in the structure of the White House staff. Although the Reagan administration had in important positions many people from California, which commands the Pacific, the new administration consists of many from the Eastern states, which traditionally put more emphasis on the Atlantic relationship than the Pacific one. Bush himself is an Atlanticist in essence. Brent Scowcroft, the national security adviser, and his deputy, Robert M. Gates, are experts on the Soviet Union, Europe and disarmament. We may say that the structure puts excessive weight on relations with the Soviet Union and Europe.

The third change is that the Bush administration has come to link security issues with economics and trade. One big reason why the U.S.-Japan relation has continued to develop despite a series of bilateral problems is that the two countries have drawn a line between defense and business. As the FSX dispute has revealed, however, the Department of Commerce and the U.S. Trade Representative's Office now have a direct influence on the military issues that were once handled exclusively by the departments of defense and state. We fear this new arrangement may make bilateral troubles more serious.

We should also realize that compounding matters is the pressure on President Bush to give priority to cooperating with Democrats, who have majorities in both the Senate and the House, and to take a more protectionist stance than Republicans.

The Reagan administration championed the Age of the Pacific, and the Bush administration has put emphasis on Asia. Japan would be making a mistake, however, if it were to take this stance at face value and optimistically think that bilateral problems won't get worse if Japan increases its self-defense spending as much as the United States wants it to.

The U.S. perception of Japan has greatly changed: Many Americans think that Japan's economic power is a more serious threat to the United States than Soviet military power. Japan needs to take an accurate measure of what is happening in the United States and do its best to find new ways of keeping company with its partner.

Paper Examines Coleadership Instability

OW2804122389 Tokyo THE JAPAN ECONOMIC JOURNAL in English 29 Apr 89 p 10—FOR OFFICIAL USE ONLY

[By Masaru Yoshitomi, director general of the Economic Research Institute, Economic Planning Agency]

[Text] The U.S. economy continues to hold the distinction of being the largest in the world. The GNP of the U.S. is nearly three times that of Japan, if one uses OECD estimates which put the yen's purchasing power parity at Y214 per U.S. dollar. This GNP No. 1 economy, however, has been declining relative to Japan and other nations. As a result, the U.S. has been slipping in its hegemonic position as world leader.

Many political scientists and international relations experts claim that, through Japan-U.S. cooperation, U.S. hegemony can be propped and a stable world system maintained. For Japan, this would specifically entail such moves as increases in official development assistance (ODA) and further market liberalization. I cannot help but feel, however, that this argument for joint Japan-U.S. hegemony fails to give adequate consideration to the inherent instability in such an alliance. It overlooks the need to form a more sophisticated political

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framework for cooperation. This need derives from a number of current trends in the fundamental interdependence of Japan-U.S. relations.

There is no denying that the U.S. could still continue to stabilize the world system in the areas of peace and security, international monetary system and free trade. Japan will be willing to support such U.S. hegemony.

The U.S. accounts for over 30 percent of total world military expenditures, with Soviet arms spending at roughly the same level. In the area of international finance, 70 percent of world assets and liabilities are denominated in dollars. In inter-bank money markets, the dollar is the sole vehicle currency. With regard to the world trade system as well, the U.S. continues to act as the standard bearer for free trade. Even the "super 301" provision of the new omnibus trade bill seeks only to break down barriers to trading partners' only to break down barriers to trading partners' markets. The U.S. hegemon is vividly demonstrated in that determinations regarding such barriers, however, are made by the U.S. itself.

Problems emerge in the fact that the U.S. hegemony in world security and the key currency status can be supported by relying increasingly more of Japan's high technology and financial strength.

At present, Japan's institutional investors are said to hold one third of all U.S. Government bonds. The 1988 estimate for Japan's domestic savings (total savings by households, businesses and the government) was nearly five times greater than that for the U.S. assuming an exchange rate of Y [yen] 130 per dollar.

In the areas of technology, Japan is steadily overtaking the U.S. in civilian high-tech industries. In the emerging mega-bit era, Japan is likely to shore up its position of superiority. Japan is also at the leading edge of technology for high-definition television.

Japan thus has the economic ability and political willingness, in the area of high technology and finance, to support the U.S. hegemony. For example, electronic equipment, such as radar, small computers, electronic instruments and displays, is becoming increasingly important in advanced weapons systems. In the development of the FSX fighter jet as well, few would deny the indispensability of Japan's high performance radar and its manufacture of single-layer wings from carbon fiber-reinforced plastic. Japan's financial power, moreover, is maintaining the key currency status of the dollar by financing the U.S. domestic and external deficit. Through increases in its ODA, which now exceeds that of the U.S., Japan is also contributing to the stability of the global security system. In addition, it is clear that the Brady plan for debt relief of middle-income nations cannot be carried out without Japan's finance.

It thus seems possible that, if the security force and key currency status of the current leader, the U.S., are supported by the financial and technological strength of the world's number two economy, Japan, joint U.S.-Japan hegemon can stabilize the world system. The two countries' strengths complement each other. Put another way, such joint hegemon could be maintained by combining the two nations' overwhelming strength in the respective areas.

A fundamental problem, however, arises. As Japan's technological and financial power is used more and more to promote U.S. leadership in the future, the economic interests of the U.S. itself may gradually be infringed upon by Japan. As a result of this infringement by Japan's technology and financial strength, such a plan for joint Japan-U.S. leadership, while extremely desirable in terms of a Japan-U.S. alliance on the political front, nevertheless holds the potential for fundamental instability on the economic front. This can be seen in Japan-U.S. friction in the semiconductor industry over the past few years, as well as the proposed joint Japan-U.S. development of the FSX fighter jet.

For this specific reason, even though Japan has placed a great deal of confidence in U.S. leadership, the U.S. is witnessing a sharp rise in "Japanphobia." How can the fundamental instability of such Japan-U.S. openness and globalism in the fields of technology and finance? This is the greatest challenge ever to face Japan and the U.S. It will demand the most skilled and foresighted political judgments from both sides.

Government Worried About Trade Frictions
OW/2704105589 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 26 Apr 89 Morning Edition p 3—FOR
OFFICIAL USE ONLY

[Text] The Ministry of International Trade and Industry (MITI) and the Foreign Ministry are worried about the possibility that Prime Minister Takeshita's announcement of his decision to resign may obstruct trade negotiations with the U.S. Government which is now stiffening its position toward Japan against the backdrop of a trade imbalance.

This is because the two ministries think that as a result of the announcement, the present government's ability to deal with issues and problems will be inevitably lowered. They think that they will thus face a difficult situation for some time.

Toward the end of May the U.S. Government is to further reduce the number of countries requiring negotiations on the basis of U.S. trade law super Article 301. Under the present situation, it seems inevitable for Japan to be put on the list of these countries. Therefore, the government hopes to somehow find a way out of this difficult situation at the last moment.

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On 24 April Ministry of Posts and Telecommunications Administrative Vice Minister Okuyama flew to the United States and is now talking with the U.S. side on measures to open the market in the field of telecommunications. However, it is undeniable that Japan's ability to negotiate has been diminished due to the current unstable political situation in Japan. Japan now finds it hard to make major concessions based on political judgment.

MITI, which carries many "fields of friction," is eager to abate U.S. discontent with Japan, and to this end MITI Minister Mitsuoka will visit the United States on 29 April and hold talks with U.S. Trade Representative Hills and others. Commenting on the view that his visit will lack in persuasive power, as he is a minister of the Takeshita Cabinet, Minister Mitsuoka painfully says that "there is no other way but to continue our efforts in view of consistency in politics and foreign policies."

For the time being, Minister of Agriculture, Forestry, and Fisheries Hata does not intend to change his schedule to begin a visit to the United States on 30 April and hold talks with government and Congressional leaders including Secretary of Agriculture Yentler.

There is the following view within the government: "When the Cabinet lacks the ability to deal with problems, it cannot take a proper step suited to each different occasion. This is undesirable when Japanese-U.S. relations are expected to become more tense."

Increased Imports From United States Planned
OW2004234789 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 20 Apr 89 Morning Edition p 3—FOR
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[Text] The government plans to start studying emergency import measures beginning May in a bid to avoid the U.S. application of omnibus trade law super Article 301 (Unfair Trading Nations: Specific Acts and Sanctions) against Japan. A top Foreign Ministry official disclosed this on 19 April. Government ministries and agencies will finalize the measures. Major points of the measures are likely to be 1) imports amounting to more than \$1 billion through government procurements; 2) the import promotion of foreign-made goods by private enterprises centering on export enterprises, and 3) the early relaxation of regulations on distributive markets including the large-scale retail store law. The measures are also likely to stress all-out efforts by the government and private enterprises to redress Japan's trade imbalance by strongly calling for increased imports not only through government procurements but also by private enterprises. It is the first time for Japan to grapple for increased imports under government leadership since the emergency economic measures were implemented in May 1987.

The government plans to hurriedly work out the measures in the belief that Japan-U.S. trade frictions have begun intensifying and if this is left unsettled, there will be a danger of the United States invoking super Article 301 and thus creating adverse effects upon overall Japan-U.S. relations. The cabinet council meeting of the Organization for Economic Cooperation and Development (OECD) to be held on 31 May and the industrial nations' summit to be held in a suburb of Paris in July are expected to take up Japan's trade surplus (\$79 billion in 1988) as a major cause for the world's trade imbalance. These international moves are prompting the government to work out the emergency measures.

Under this development, the government thinks that "it is necessary to make large-scale imports" in government procurements. The government also plans to make the size of the government procurements far surpass imports costing \$1 billion which were made under the previous emergency economic measures. The government also plans to increase the share of foreign-made goods in procurement by government offices and in particular, to give priority to the introduction of electric and communications equipment with which the United States has expressed strong discontent. The government plans to further increase the procurement of foreign-made goods by the Nippon Telegraph and Telephone Corporation (NTT).

While asking private enterprises to expand their imports, the government plans to study measures to receive import plans from export enterprises and wants them to import more foreign-made goods than those they imported under the previous emergency economic measures. The Ministry of International Trade and Industry (MITI) has already asked 170 companies, including electronics manufacturers, to submit purchase plans of foreign-made semiconductors by June. The MITI plans to ask automakers, which share a large portion of Japan's exports to the United States, to increase their imports.

In relaxing regulations, the government will give priority to the sector which can promote sales of foreign goods on the Japanese markets. The government plans to make a flexible operation of the large-scale retail store law, including shortening the period for opening retail stores, upon receiving reports in July from the Industrial Structure Deliberation Council and the Small and Medium-sized Industry Deliberation Council under the MITI.

The government plans to make a formal decision on these measures in May in hopes that they will have favorable effects on U.S. decisions, including a decision on applicable nations under super Article 301, toward the end of May. The government also aims to avoid the invocation of retaliations under omnibus trade Law Article 1377 (the electric and communications article) which allows the U.S. Government to impose swift sanctions against Japan in the electric and communication fields.

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Energy Industry Concerned About U.S. Policy
OW2804145089 Tokyo THE DAILY YOMIURI
in English 23 Apr 89 p 1—FOR OFFICIAL USE ONLY

["Economic Forum" article by Yoshio Matsui: "All Eyes on Bush's U.S. Energy Policy"]

[Text] With the recent rise in the price of crude oil, the energy industry is paying close attention to the policies of U.S. President George Bush's administration because these will provide important information in predicting future trends in the oil market.

Crude oil imports by the United States are increasing conspicuously. Daily imports totaled 4 million barrels for the first half of the 1980s and soared to 7 million barrels per day in 1988.

Daily volume continued to rise, reaching 8.2 million barrels in January 1989.

W. Martin, former deputy secretary of energy during the Reagan administration, predicted during a recent visit to Japan that U.S. daily imports would reach 10 million barrels in 1995 and 12 million to 14 million in 2010. This is an ominous prediction.

This tremendous volume is large enough to equal the total crude output of a large oil-producing country.

Along with the current action of the Organization of Petroleum Exporting Countries, his prediction coincides precisely with the prevailing forecast that a tight supply-demand situation will surface in the mid-1990s.

Martin also said that daily production of U.S. crude oil would gradually decrease from the present 8 million barrels per day to a 5 million-barrel mark in 1995. If so, the tight situation is certain to intensify.

Fearing a crisis, the energy industry hopes that, unlike the Reagan administration, the Bush administration will not allow the situation to be influenced too easily by market mechanisms.

Two issues are particularly noteworthy. One is the need to protect the Earth's environment, especially from the greenhouse effect—the warming of the atmosphere caused chiefly by carbon dioxide—and pollution of the atmosphere with nitrogen and sulfur oxides generated from the burning of petroleum and coal.

As long as fossil fuels such as petroleum and coal continue to be used, the greenhouse effect will remain unresolved. The consumption of fossil fuel has to be reduced to neutralize the effect.

Natural gas and nuclear energy are considered to be the main alternative energy sources to avoid such environmental problems.

The energy industry thinks the Bush administration will have to consider increasing the use of natural gas since the United States has huge deposits.

A segment of the energy industry also expects a lot from a move to revitalize the nuclear energy industry in the United States because it may curb protests against nuclear power generation in this country.

The other interesting issue in the United States is whether the Bush administration will raise the petroleum tax. If the tax is raised, it will have a tremendous effect in reducing the consumption of oil.

*** Research Center Develops New Economic Index**
41060088 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 11 Mar 89 p 21—FOR OFFICIAL USE ONLY

[Article by Japan Economic Research Center researcher Shimanaka Yuji]

[Text] (1) Although business conditions have continued to be favorable, some leading indicators like inventories and the rise of interest rates are a cause for concern.

(2) We have developed a new economic forecasting index that is more timely than existing indexes, and makes it possible to analyze Japanese and U.S. business conditions for the same period. Using this new index we examined current business conditions.

(3) According to this index, the second warning alarm of a coming recession in Japan has sounded. In contrast, looking at U.S. business conditions, contrary to popular view, only the first alarm has sounded.

(4) This new index is still in the trial stage, but because of its timeliness in forecasting business conditions, it should be very useful.

For 6 successive months the Economic Planning Agency's diffusion index (DI), which was published in the fall, fell below 50 percent. I remember that there were both optimistic and cautionary economic forecasts.

To know which viewpoint was correct, it is necessary to look at how future business conditions will develop although there is no doubt that up until now Japan's business conditions have continued to be favorable.

In January, production in the steel industry was up 1.2 percent over the preceding month, making it 3 consecutive months of increases. Even according to the manufacturing industry's production forecast index, there is no change in the factors underlying the expansion of production.

However, it is true that unfavorable signs have also emerged. For example, in the latter part of February, the Federal Reserve Board, fearing inflation, raised the

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official bank rate, and the Bank of Japan is starting to accept a rise in short-term interest rates. Furthermore, in some kinds of industries, expansion of inventories is starting to exceed increases in production.

Thus, while business conditions still appear to be satisfactory, subtle signs are gradually arising that all is not well. Therefore, it is important to use the newest data available to check on future business conditions. The problem is that the data for this task is unsatisfactory. In Japan the Economic Planning Agency's DI and in the United States the Department of Commerce's composite index (CI) are usually used to determine overall macroeconomic conditions on a monthly basis. There are, however, several hitches to using these statistics to forecast business conditions.

The first problem is that Japan's DI statistics are published rather late. In the United States one month's statistics can be obtained by the end of the next month. In Japan, however, the statistics are not ready until the end of the following month (two months late). The second problem is that comparisons of business conditions for the same period in the United States and Japan cannot be made. The United States' CI and the Economic Planning Agency's CI, which is published together with the DI as a reference index, are compiled in different ways and use several different indicators.

The author has been busy since last fall in a cooperative effort to develop a new economic forecasting index in the Japan Economic Research Center's applied research department. The purpose of the new index is to estimate turning points in business conditions on a monthly basis. Recently, the first trial index was prepared. Below the special characteristics of the new index are introduced and a judgment of present conditions using this new index is made.

The Japanese-United States Economic Forecasting Index is the name that has been given to the new index. Its first characteristic is its timeliness. As a principle, only statistical data that is published by the end of the next month is used, so the index can be compiled by the beginning of the following month (for example, January figures are prepared by 1 March).

Second, Japanese and U.S. economic forecasts are produced at the same time. Moreover, they can be used with about the same standards—so both country's economic maturation can be compared in a similar time sequence.

The third characteristic is that the index is compiled in such a way that turning points in business conditions can be estimated in stages. The present DI and CI are compiled in three groupings: the index of leading indicators, the index of coincident indicators, and the index of lagging indicators. The new index is composed of a "present condition's index" which is equivalent to the

index of coincident indicators, and indexes which estimate movement thereof—the "first index of leading indicators" and the "second index of leading indicators." They are published in the form of a composite DI.

In the terms of past economic forecasting indexes, the two indexes of leading indicators correspond to an inverse of the index of lagging indicators and to the index of leading indicators. They are not really new concepts. However, by analyzing turning points in business conditions by dividing the lead period indicators into two groups, the first index of leading indicators and the second index of leading indicators, maturation patterns in business conditions can be grasped fairly clearly.

The separate indicators that compose the "Japanese-U.S. Economic Forecasting Index" in this first trial run include 21 indicators for Japan and 25 for the United States. Two-thirds of the indicators in both cases are in the second index of leading indicators. A detailed explanation of the indicators that were used has been omitted. The indicators that were not in the previous economic forecasting indexes in the Japanese case are: machine orders received by agencies, the ratio of mining and manufacturing industry's use of capital goods to final demand commodity production, medium and small industries' DI of sales as published by the Medium and Small Industries' Finance Corporation, the nonferrous metals industry's consignments index, and so forth. In the U.S. case they include: the composite long- and short-term interest differential, the National Association of Purchasing Management's (NAPM) economic forecasting composite index, the yen-dollar rate, the textile industry's production index, and so forth.

Now let's really use this index to examine the durability of Japan's business conditions. The diagram [not published] traces the movement in the economic forecasting index for Japan. Looking at this, the present conditions index shows a slight decline from April to June 1988. After that it rises again. The earlier of the leading indexes, the first index of leading indicators, peaked in July 1987, after which it declined for 18 months through January 1989. The lead time of this index before each of the last three peaks in business conditions averaged 18.3 months. According to the precedent of the examples to date, there should be another peak and this would anticipate a downward turn in business conditions. That is, the first index of leading indicators' long-term downward trend is the first signal of a recession.

However, with only this information it is premature to predict a recession in the near future. This is because the first index of leading indicators includes not only indicators that have a clear leading influence on business conditions like inventory and interest rates, but also indicators which are structural components of business conditions, like equipment investment and export volume.

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So the problem becomes, what is the current second index of leading indicators? This index has about a half year lead to the peaks and troughs in business conditions. As can be seen in the diagram, there is a peak in June 1988 after which the index declines for 6 months until December. This is the second alarm before a recession. However, recently in January 1989 there was an upturn. Thus, there is the possibility of a reversal (a midway change in business conditions). As a check, if we look at the movement of the ratio of coincident to lagging indicators (B in the diagram), which lags behind the first index of lead indicators and leads the second index of lead indicators, the index shows a decline for the period September 1987 until the present. Consequently, the rise in the second index of leading indicators in January 1989 is probably not a change in basic conditions. Rather, there is a strong possibility that this change is only short term. The second alarm is for the present still real.

Looked at in this way, the new index which is deeply rooted in optimistic lead theory, shows that there is a strong possibility that Japan's present business conditions are approaching a down turn.

So how about the U.S. economy, which like Japan's is expanding? Since March 1988 there has been confirmation of the first alarm that warns of recession, but the second alarm (a continuous drop in the second index of leading indicators) has still not sounded. It is commonly thought that there will be a recession in the United States; however, the new index suggests that the U.S. economy has a better chance of continuing to maintain itself than does the Japanese.

Having said this, this Japan-United States economic forecasting index is still in the trial stages. There are still statistical, technological, and economic points that need improvement. However, it is a timely economic forecasting index that is especially useful for forecasting turning points in business conditions when detailed analysis of economic indicators is made.

Note: The DI shows the percentage of the total index for which the index of leading indicators, the index of coincident indicators, and the index of lagging indicators showed increases in their level over their level three months earlier. If the standard line is above 50 this suggests that business conditions are expanding. The composite DI is a composite of the difference between the index and the standard line, and shows the direction in which the DI is moving. The ratio is the index of coincident indicators divided by the index of lagging indicators, and therefore can be thought to predict changes in business conditions.

The Main Indicators in the "Japanese-U.S. Economic Forecasting Index" (In the case of Japan)

The First Index of Leading Indicators	The Second Index of Leading Indicators	Index of Coincident Indicators
Mining and manufacturing inventory index	Nonferrous metals industry's consignment index	Mining and manufacturing industries' production index
Tokyo Electric Power and large contract electric power index*	Ratio of mining and manufacturing industries' use of capital goods to final demand commodity production	Mining and manufacturing industries' consignment index
Nominal capital goods and consignment index	Machine orders received by agents (1 month previous)	Department store's total sales index*
Spot interest rate on 3 month's goods	Real Nikkei average price of stocks, 500 stocks	Domestic wholesale price index (total average)*
Volume of exports index	Medium and Small Industry's Finance Corporation's DI of medium and small industry's sales	

Note: (1) The First Index of Leading Indicators is the inverse of the Index of Lagging Indicators. (2) Under the Second Index of Leading Indicators 5 main indicators out of 12 are listed. (3) * indicates the ratio to the same month of the preceding year; "1 month before" is in terms of data and makes use of the previous month's numerical values.

Soviet Union

Uno Interviewed on Visit to Soviet Union

OW2604141189 Tokyo JIJI in English 1347 GMT
25 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, April 25 (JIJI Press)—Foreign Minister Sosuke Uno Tuesday expressed the hope that his trip to the Soviet Union, starting Sunday, will help facilitate mutual dialogue as a step to the conclusion of a peace treaty.

Uno said he will strongly propose concluding the treaty after a Kremlin agreement to return to Japan four northern islands off Hokkaido the Soviet Union has held since the end of World War II. He made the remarks during an interview with reporters who will accompany him on an eight-day trip to the Soviet Union and Mongolia.

The Soviet Union, in a policy turnaround, is increasing its commitment to dialogue with Japan on the territorial issue, and this should be further developed, Uno said.

Uno will stay in the Soviet Union until he leaves for a two-day visit to Mongolia starting May 5. Most of the time for talks with Soviet leaders, including General

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Secretary Mikhail Gorbachev, will be spent on ironing out differences on the northern island sovereignty issue and promoting a Soviet-Japanese summit meeting, the minister said.

Uno indicated his readiness to strongly rebut any unreasonable assertion from the Soviet side.

In a meeting with Gorbachev scheduled for May 4, he will encourage the Soviet leader to [words indistinct] a Japan visit, which he said will help forge a better neighborly relationship.

On the same day, Uno received a Kremlin message, in which his Soviet counterpart Eduard Shevardnadze attached importance to a meeting between them scheduled for May 3. Uno received the message from Soviet Deputy Foreign Minister Vladimir Petrovskiy during his courtesy call at the Foreign Ministry.

In a reply to Shevardnadze, Uno said the forthcoming meeting will mark a milestone in developing mutual relations.

*** Improved Relations With USSR Discussed**

41050072 Tokyo ASAHI SHIMBUN
in Japanese 8 Mar 89 p 6—FOR OFFICIAL USE ONLY

[Interview with Boris Pyadyshev, Soviet Foreign Ministry adviser and editor in chief of INTERNATIONAL AFFAIRS by Hiroki Izawa; date and place not given]

[Text] The Soviet Union's "glasnost" is currently making a big splash. For example, IZVESTIA, the party newspaper, has published the complete text of a written interview with Prime Minister Takeshita. Moreover, the Soviet Foreign Ministry's public relations journal, INTERNATIONAL AFFAIRS, contains in its February issue a roundtable discussion with Japanese experts on a summation of the Japanese-Soviet foreign ministerial talks held late last year. The journal will also publish in the near future a written interview with Foreign Minister Uno. When Soviet Foreign Ministry Advisor Boris Pyadyshev, who is also the editor in chief of that journal, and who was a member of the Soviet delegation for those foreign ministerial talks, visited Japan again at the invitation of the Japan External Cultural Cooperation Council, I, Hiroki Izawa, interviewed him about the prospects for improved Japanese-Soviet relations.

[Izawa] Will General Secretary Gorbachev be able to visit Japan during this year?

[Pyadyshev] I anticipate that a visit to Japan will take place. Politically speaking, relations between the Soviet Union and Japan are clearly lagging in comparison with other Western countries. As far as I know, the Soviet leadership is ready for a Japanese-Soviet summit. The summit talks will have significance in positively influencing the development of Japanese-Soviet relations.

[Izawa] What sort of positive effect?

[Pyadyshev] They must provide the stimulus for all developments in the Japanese-Soviet relationship, particularly for exchanges in the political and economic areas.

[Izawa] Isn't the signing of the peace treaty necessary?

[Pyadyshev] The signing of the peace treaty is a major problem confronting Japan and the Soviet Union. The fact that our two countries have not had a peace treaty for over 40 years since the end of World War II is an extremely unusual phenomenon. However, I think that we can discuss other bilateral relations while preparing the treaty.

[Izawa] You say that efforts to improve political relations [with Japan] are lagging, but isn't this true of the policy toward all of Asia?

[Pyadyshev] I agree. Until recently, the Soviet Union's foreign policy concerns had been primarily directed toward Europe and the United States. The new Gorbachev regime reached the conclusion that the concentration on Europe and the United States was not proper. It was abnormal to have a vacuum over a period of several years when regular Japan-Soviet foreign ministerial consultations were not held. Moreover, until Foreign Minister Shevardnadze's visit, a Soviet foreign minister had not even taken one trip to Indonesia, Australia, or Central and South America.

[Izawa] There is the view that resolution of the northern territories problem will be difficult without a plan for peace in Asia and the Pacific region and the establishment of a security system there.

[Pyadyshev] The Soviet side does not consider the territories issue important. If Japan considers this an important stumbling block, it should make its case. When Foreign Minister Shevardnadze visited Japan last December, the foreign ministers discussed this issue in considerable detail. Japan laid out as the basis for its argument established international law, but we were able to provide our explanation to that. The Japanese side has not made a solid rebuttal to the Soviet explanation.

[Izawa] Did a genuine Japanese-Soviet dialogue begin recently?

[Pyadyshev] To put it more precisely, I think we can say that the diplomatic mechanism has finally begun to function. At the same time, the Soviet media have begun to publish more data about the substance of the dispute. One of the major stumbling blocks is that Japan is using economics as leverage for achieving a political objective. The Soviet Union is greatly interested in the development of economic relations with Japan. We place great importance on the development of Siberia and the far

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east. We regard Japan as a natural partner in huge long-term projects. If Japan uses economics as a means of pressure and treats the Soviet Union in an unfriendly manner, this will bring about an effect that is the reverse of our expectations.

[Izawa] If publicity about the Soviet's side helps shape public opinion when the Japanese side is given prominence in the media won't that begin to have a great impact on policy?

[Pyadyshev] My personal view is that the official understanding of the government and the Foreign Ministry does not differ from the national sentiment. The overwhelming majority of the public is firmly convinced that there is no basis for Japan's territorial demands.

Petrovskiy Discusses Issues of Mutual Concern

Notes Northern Territories Issue

OW0205132189 Tokyo THE JAPAN TIMES
in English 27 Apr 89 p 3—FOR OFFICIAL USE ONLY

[Text] A senior official of the Soviet Foreign Ministry said Wednesday a "very important new development" was taking place between Moscow and Tokyo in that bilateral dialogue on the Northern Territories issue has been under way since early this year.

Vladimir F. Petrovskiy, a deputy foreign minister in charge of disarmament and UN matters, said at a news conference in Tokyo: "We should reconsider our positions (through the dialogue)."

He did not elaborate, other than to say the Soviet Union did not think the Northern Territories issue "should be an obstacle to the development of Japanese-Soviet relations."

Petrovskiy is currently in Japan to make preparations for Japanese Foreign Minister Sosuke Uno's upcoming visit to Moscow. He also attended the United Nations Conference on Disarmament held in Kyoto last week.

With Uno's visit to Moscow next week, the Soviet government is hoping Japanese-Soviet relations will enter a new era, Petrovskiy said.

Petrovskiy said he was hopeful Japan and the Soviet Union would engage with a broad range of issues, including multilateral ones.

Ready for Regional Disarmament Talks

OW0205125689 Tokyo ASAHI EVENING NEWS
in English 27 Apr 89 p 3—FOR OFFICIAL USE ONLY

[Text] Soviet Deputy Foreign Minister Vladimir Petrovskiy said Wednesday his country is ready to start dialogues on disarmament with countries in Asia and Pacific regions.

He cited European approaches to disarmament and security issues such as the U.S.-Soviet bilateral arms reduction talks as ideal ways to deal with the same issues in Asia and Pacific although there exists historical, political and geographical differences between the two regions.

Petrovskiy, who spoke at the Foreign Correspondents' club of Japan in Tokyo, came to Japan to attend the United Nations Conference on Disarmament Issues in Kyoto last week.

He also pointed to the possibility of combining the European and Asian-Pacific disarmament processes to form the backbone of "a new structure of security in the world."

The Soviet Union, he said, is ready to make further unilateral arms reduction proposals in the Asia-Pacific region and to be "flexible" to any suggestions from the nations concerned.

Government Firms Up Plans for Joint Talks

OW2804120089 Tokyo YOMIURI SHIMBUN
in Japanese 24 Apr 89 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Text] On 23 April the government firmed up plans for Japan-Soviet foreign ministerial talks and a meeting between General Secretary Gorbachev and Foreign Minister Uno, which will be held in Moscow on 3 and 4 May respectively when Foreign Minister Uno visits the Soviet Union, and the 3d working-level meeting for the peace treaty, which will be held on 29 April before the above meetings.

At the meeting with General Secretary Gorbachev, Foreign Minister Uno again will ask him to visit Japan at an early date and directly convey Japan's position to him, saying that "the resolution of the territories issue, the biggest pending issue between the two countries, is indispensable to progress in Japan-Soviet relations." The government plans 1) to take a flexible stance toward the conclusion of some agreements, including environmental protection, out of six agreements which have been sought by the Soviet side as a basic principle for economic cooperation after watching moves on the part of the Soviet side and 2) to argue, on the basis of international laws, against a series of Soviet contentions on the northern territories, including its latest contention at the previous working-level peace treaty meeting that the Soviet occupation of four northern islands is based on Article 107 of the UN Charter.

It will be the first time for General Secretary Gorbachev to meet with Japan's foreign minister since Japan-Soviet negotiations entered a new phase following the establishment of the working-level peace treaty meeting at Japan-Soviet foreign ministerial talks held last December. The working-level meeting is attended by vice foreign ministerial officials and other officials. The government

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attaches a great importance to the Uno-Gorbachev meeting since the "general secretary's judgment has absolute gravity in deciding the Soviet foreign policy," (according to a Foreign Ministry source). The government plans to stress the need on the part of the Soviet side to take a positive initiative on the territories issue for the purpose of improving Japanese-Soviet relations and sound out General Secretary Gorbachev's views on Japan.

The government believes that the Soviet side certainly will take up the question of concluding the agreements as part of its efforts to create an environment for General Secretary Gorbachev's visit to Japan.

Although the Japanese side at the previous working-level meeting held on 20 March rejected the Soviet proposal for the conclusion of the agreements, saying that "it is not necessary to conclude such agreements," a top Foreign Ministry official said that "this is not a final answer." In case the Soviet side indicates positive responses to the territories issue and General Secretary Gorbachev's visit to Japan, the government is studying the possibility of complying with Soviet calls for discussions on three agreements in the fields of environmental protection, tourism, and the peaceful use of space, which are viewed to be in agreement with the principle of inseparability of politics and economics.

Soviet Defense of Islands Occupation Refuted
OW2704120089 Tokyo TOKYO SHIMBUN
in Japanese 24 Apr 89 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] It has been disclosed that at the working group consultations on concluding a Japan-USSR peace treaty aimed at settling the northern territorial issue, the Soviet side maintained that there "does not exist" any territorial issue between Japan and the Soviet Union, and that to justify its occupation of the four northern islands, the Soviet side cited the "Potsdam Declaration," which Japan accepted on its surrender as well as the "Cairo Declaration," on which the "Potsdam Declaration" was based, in addition to the "Yalta Agreement," in which it was decided that the Kurile Islands should be handed over to the Soviet Union. This was disclosed by a government source on 23 April.

The Soviet side stated this position at the working group consultations on a Japan-USSR peace treaty held in Tokyo on 21 March. The Japanese side immediately refuted the position and stated: "Both the Potsdam and Cairo Declarations do not have any legal effect on the final settlement of the territorial issue. The territorial issue must be strictly settled by a peace treaty." Thus, the conflicting views were not reconciled.

Japan and the Soviet Union will continue their negotiations at the working group consultations on concluding a Japan-USSR peace treaty to be held in Moscow on 29 April and at the Japan-Soviet foreign ministerial regular consultations to be held on 3 May. However, due to the

great gap existing between the two sides's positions, it is observed that it will be very difficult for the two sides to make any substantial progress in the negotiations on the territorial issue.

In maintaining that "the world of today exists because of the realities connected with World War II," the Soviet Union has frequently referred to the February 1945 Yalta Agreement. However, the Japanese side refuted that since Japan "did not sign the agreement, it has no obligation to be bound by the agreement."

In this connection, the Soviet Union has started stressing the Potsdam Declaration, which Japan has accepted, and the Cairo Declaration on which the Potsdam Declaration is based as the legal basis for justifying its occupation of the four northern islands—Habomai, Shikotan, Kunashiri, and Etorofu.

The July 1945 Potsdam Declaration stated that "the clauses stipulated in the Cairo Declaration must be observed," and that "Japan's sovereignty must be limited to Honshu, Hokkaido, Kyushu, Shikoku, and various small islands to be decided by us (the United States, China, and Great Britain)."

Moreover, it is stated in the Cairo Declaration (of November 1943) that "Japan must be stripped of all the areas it has seized by force and out of avarice." In August 1945 Japan accepted the Potsdam Declaration and surrendered.

However, the Potsdam Declaration does not clearly give concrete details about "various small islands to be decided by us," and the four northern islands, which are Japan's inherent territories, do not apply to the "areas that Japan has seized" as stipulated in the Cairo Declaration.

The position taken by the Soviet side has given a strong impression that it is trying to explain the two declarations to its own advantage. Therefore, the government source strongly refutes that "the Soviet side has presupposed the conclusion that the territorial issue does not exist between Japan and the Soviet Union and then the Soviet side seems to have tried to connect all legal basis with this conclusion."

Reporters Find Kunashiri Island 'Sovietized'
OW 2904013089 Tokyo TOKYO SHIMBUN
in Japanese 22 Apr 89 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Sapporo—A HOKKAIDO SHIMBUN fact-finding team made a 5-day tour of Kunashiri Island, part of the northern territories, from 15 to 19 April. This was the first Western news media team to cover the island since the war. Forty-four years have passed since the end of the war and great changes were noted on the island. There are no longer any traces that many Japanese residents used to live there. At present there are 7,500 Soviet residents on the island. Many third generation

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young people born on the island have begun to make the island the place of their livelihood. Under strict conditions they are engaged in steady activities related to production and construction. With regard to the territorial issue, most of those polled gave a strict view that "no islands, not even one, should be returned to Japan." Meanwhile, they have considerable interest in Japan, greatly hoping that it will cooperate in developing fisheries and promoting tourism.

Setting up its base at Yuzhno-Kurilsk (Furukamappu is the Japanese name), the team covered the area from both land and air. Various organizations are concentrated in Yuzhno-Kurilsk, including the headquarters of the Southern Kurile CPSU District Committee whose jurisdiction includes the Kunashiri, Shikotan, and Habomai Islands; the only school on the island; and a newspaper. However, the main street has been moved from the prewar town in the coastal area to more elevated ground to avoid tidal waves. No prewar Japanese-style structure can be seen in the old section of town. Although the buildings are still predominantly made of wood, there are an increasing number of concrete buildings such as hospitals, the culture center, and collective housing. Thus, one is given the strong impression that the island has already been Sovietized.

The island economy is primarily supported by fishing, as in prewar years. The "Rogina" [name as published], a fishery complex located in Yuzhno-Kurilsk, places great importance on the production of canned sea cucumbers and kelp. It is significant to note that the people are making the most of their coastal resources. The island is capable of supplying 60 percent of its demand for meat, according to the District Committee. In this connection, most residents raise their own hogs, chickens, and rabbits for family consumption.

With regard to Japan's demand for the return of territories, most residents have adopted a strict position as noted in remarks made by Tereshko [name as published], first secretary of the District Committee, who stated: "Our third generation has already grown up, and we do not want to go anywhere." The secretary also pointed out that there are many marine resources that have not yet been utilized and indicated a strong wish to promote production activities through Japan's cooperation.

Northeast Asia

Official To Accompany LDP Group to Pyongyang

OW3004115289 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 23 Apr 89 Morning Edition p 1—FOR
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[Text] Foreign Minister Uno has indicated his intention of having a senior Foreign Ministry official accompany a Liberal Democratic Party [LDP] delegation to North Korea (DPRK) when it visits Pyongyang in September, at the earliest, with the aim of bringing about intergovernmental dialogue between Japan and North Korea.

The foreign minister indicated this when he met with family members of Chief Engineer Kuriura of "Fujisan Maru No 18," now under detention in North Korea, at a Fukuoka hotel yesterday evening.

The plan, he said, will be examined in concrete terms between the two governments through the intermediation of the Japan Socialist Party [JSP], which is acting as "go-between" between the two sides. If accepted by North Korea, it will be the first visit to North Korea, with which Japan has no diplomatic relations, by a Japanese diplomat since the war.

Regarding an LDP delegation's visit to North Korea, the North Korean side expressed to former JSP Secretary General Tanabe during his recent visit to Pyongyang that it would accept the LDP group as a dietmen's delegation. At the same time, the North Korean side invited former LDP Vice President Kanemaru to visit North Korea.

Foreign Minister Uno believes that the possibility has increased of North Korea accepting a proposed intergovernmental dialogue now that: 1) President Kim Il-sung indicated a posture of positively evaluating, in outline, the prime minister's new view of North Korea; and 2) North Korea has lifted a ban on ceremonial contacts of its diplomats with Japanese diplomats. Whether North Korea will accept the plan or not, however, remains to be seen.

Southeast Asia

Takeshita Supports Cambodian Settlement

OW0105125589 Tokyo MAINICHI SHIMBUN
in Japanese 1 May 89 Morning Edition p 1—FOR
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[By correspondent Hiroshi Matsuda]

[Text] Bangkok, 30 Apr—Prime Minister and Mrs Chatchai hosted a dinner party at the prime minister's office on the evening of 30 April to honor Prime Minister Takeshita who is currently visiting Thailand.

Prime Minister Takeshita stated: "There is now a strong movement afoot concerning the Cambodian issue. We are now reaching an important time to decide on peace in the Southeast Asian region." And he reiterated that Japan would positively support the move toward a political settlement of the Cambodian issue through efforts mainly of the ASEAN nations.

Concerning economic cooperation in the Asian-Pacific region, Prime Minister Chatchai stated: "This region has great potential to become the center for world economy. This is your second visit to the ASEAN nations in your capacity as the prime minister, and it indicates that Japan attaches great importance to this region." Thus, he stressed the importance of implementing the cooperation concept with Japan, Australia, and the ASEAN nations playing the major roles.

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Philippine Official on Manpower Shortage
OW2804232189 Tokyo THE JAPAN ECONOMIC
JOURNAL in English 29 Apr 89 p 11—FOR
OFFICIAL USE ONLY

[Article By Tomas D. Achacoso, administrator of the
Philippine Overseas Employment Administration]

[Text] Among the regions of the world, it is Asia which still has the most room for growth. But the program for growth will require a catalyzing force. Japan, now the world's third most powerful nation, has demonstrated such a force.

Japan exhibits an unquestionable concern for the development of its Asian neighbors.

I firmly believe that the key to maximizing Japan's productive potential lies in utilization of the idle resources of its Asian neighbors. The most important of these resources being, perhaps, the people. Japan already suffers from shortages of manpower in its backbone industrial activities, like construction.

It would benefit Japan greatly to enlist the surplus of qualified labor in Asia, as many labor-importing countries of the Middle East, Europe and America have been doing. As the acknowledged economic leader in Asia, by liberalizing its foreign worker policy in selected industries, Japan can open the gates for a border, mutually beneficial long-term partnership with its labor-exporting neighbors.

In the second Philippine-Japan subministerial meeting held in Tokyo last November, Japan's Deputy Foreign Minister Takakazu Kuriyama expressed a most promising commitment made by Prime Minister Noboru Takeshita towards an "International Cooperation Initiative." The three pillars of the initiative are: peace building activities, promotion of cultural exchange, and development assistance, all with priority placed on the Association of Southeast Asian Nations region.

I am enthusiastic about the possibilities for translating Japan's International Cooperation Initiative into a concrete program of action. I have expressed in several forums that my country's assets includes idle manpower able to fill the needs of the Japanese industrial economy.

In regard to peace, my country must address industrial unrest and insurgencies by substantially alleviating the ill effects of serious unemployment which has recently reached approximately 3.3 million, or almost 14 percent of four work force. Some 1.11 million jobs must be created annually, requiring \$1 billion in new investments to reach our employment targets by 1992.

Indeed, many multinationals have repeatedly sought opportunities to invest in the Philippines, only to express apprehension over domestic peace and order (which, unfortunately, has been overdramatized in the media).

Many of our people aspire to improve their household incomes, even if just to reach a level slightly higher than self-sufficiency in basic necessities.

This has been the motivation for many Filipinos to seek employment abroad. Any aid program extended by richer nations should focus on the need for programs that directly touch on individuals or households.

Considering cultural exchange, we Filipinos are undergoing a cultural reorientation, especially in our work culture. The days when Filipino workers desired only white-collar jobs are gone.

Technical and vocational education for the acquisition of employable skills is quickly entering the mainstream of our manpower development strategy. There is a stronger awareness of productivity improvement methods and efficiency. The Japanese can help us substantially to sustain these directions, if they provide us with the chance to work with them.

The Philippine economy still faces many challenges. foreign exchange earnings from non-traditional sources, such as contract workers' remittances, are lending relief to our external debt payment schedule.

With our awareness of the skill profile that is in demand overseas, our overseas employment program is being geared towards the skilled labor market. the unskilled market is plagued with intense competition, scaling down wage levels. With the quality of manpower the Philippines can offer, we are more inclined to participate in the higher skill brackets which Japan will be able to offer if it opens up its labor market.

If Japan does not liberalize its policy on the entry of foreign labor in its critical industries, it could continue to experience the influx of illegal workers. there were an estimated 11,307 illegal workers in Japan in 1987, 80 percent of whom were believed to be Filipinos.

This can be attributed to the inherent manpower shortages combined with the absence of an official structural mechanism to address this shortage, which forced Japanese companies to circumvent what they perceived to be an unrealistic policy or legal system.

As to their entertaining the option of hiring Filipinos, we see this as a sign of their confidence not only in the qualities of the Filipino worker, but also in our system of mobilization. Filipino manpower has worked effectively with Japanese contractors in projects outside Japan in the past. An example took place in the Middle East under a triumvirate arrangement with the country hosting the project providing the capital and raw resources, Japan contributing its technology, finance and know-how, and the Philippines extending its manpower advantage.

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To date there are approximately 250 Japanese companies accredited by the Philippine Overseas Employment Administration and authorized to recruit Filipino workers for projects outside Japan.

The Japanese are said to be among the most scientific in orientation. Precision is given the highest value in production, enhanced by a system of free enterprise and healthy competition. If the Japanese were to apply this concept globally towards their goal of economic internationalization, it would entail allowing competitive participation of international forces of production, such as labor. Japan can no longer limit sources of production input to its own territorial boundaries.

Japan and the Philippines have complementary characteristics. Japan is one of the oldest societies in Asia while the Philippines is a young one. The life expectancy of the Japanese is 76 years, the highest in Asia.

Eventually, Japan's aged will need alternative sources of nursing and personal care as Japanese women are increasingly attracted to the work force. Women will be compelled to turn over their obligation to rear their children and nurse their aged to professional nurses, tutors and governesses.

Japan's marketing technology has become sophisticated, leading to a new employment need for researchers, graphic artists and marketing analysts. Japan's modern lifestyle will result in a need for more interior design experts; its expanding international business linkages will create a need for more English translators/teachers and English-speaking attorneys and management consultants. The Philippines has ample manpower to help meet the Japanese need not only for the more apparent and immediate labor shortages in the fields of construction, computer operations, financing and store operations, but also for Japan's future needs in other areas.

National Affairs

*** SDF Services Submit Weapons Requests**
WA2404000100 Tokyo SANKEI SHIMBUN
in Japanese 23 Mar 89 Evening Edition p 1—FOR
OFFICIAL USE ONLY

[Text] Equipment requests for the next-term defense augmentation plan that will begin in FY91 by the Ground, Maritime, and Air Self-Defense Forces were submitted by 23 March. According to the Japanese Defense Agency's [JDA] Defense Capabilities Investigation Committee (chaired by Administrative Vice Minister Nishihiro), after this the requests will be screened and an agency draft proposal will be compiled by next spring. The requests include high-cost weapon systems like the Maritime Self-Defense Force's [MSDF] light fighter-carrying large destroyer (DDV) and the Air Self-Defense Force's [ASDF] air refueling tanker. However, with the

worldwide arms reduction mood, it appears the JDA will be compelled to engage in fierce negotiations over what extent they will be approved by the financial authorities.

The following are the major requests:

I. Ground Self-Defense Force [GSDF]

1. The U.S.-manufactured multiple launch rocket system (MLRS) is the centerpiece of increased firepower which the GSDF wants to introduce to enhance its capability of interdicting forward area attacks and of countering air and seaborne invasions.

2. Plans to establish helicopter units of 600 craft (the mid-term defense plan [MTDP] enumerated 400 craft) in order to upgrade mobility to make possible the swift concentration of fighting strength. Eight anti-tank helicopter units (the MTDP listed 4 units) are to be specially organized.

3. The GSDF also has its sights on fitting out about 8 SSM1 anti-ship cruise missile units (the MTDP specified 3.5 units) and forming about 6 new special MLRS units.

II. MSDF

Strengthening sea-lane defense is the pivotal concern.

1. Construct two "Aegis" class ships.
2. A request to construct a DDV capable of dealing with missiles launched by fighters and bombers. The DDV's displacement will be 10,000-15,000 tons. In reality it is a defensive-type light aircraft carrier on which the MSDF wants to base an improved version of the British-built "Harrier" vertical takeoff and landing fighter and antisubmarine helicopters.

The MSDF's position is that its request is for an air support vessel so as to be better armed, without which air defense at sea cannot be realized. However, resistance by the opposition parties is expected, and it is uncertain whether or not the request will materialize.

III. ASDF

1. Several dozen air refueling tankers (U.S.-built KC10's or KC135's)—indispensable for fighters to remain airborne for extended periods—with the goal of increasing air defense capabilities over both the country proper and
2. The introduction of several airborne warning and control system (AWACS) aircraft that can oversee a very wide area.

In addition, for all three services alike, such areas as improved personnel treatment, including pay and allowances, improved living conditions, and the perfection of rear area readiness have been cited as key items.

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With regard to these requests, the JDA will adjust its request plan and put together a draft proposal in consonance with the following points: 1) an analysis of the strategic environment in the Far East, including such departures as the Soviet announcement of a 500,000-man troop reduction; 2) the intertwining of the request plan and the authorized strength structure; 3) an investigation of cost versus effectiveness; and 4) reconciliation with various government policies, etc.

Defense Agency Prepares To Introduce AWACS

OW1704133689 Tokyo JIJI in English 1239 GMT
17 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, April 17 (JIJI PRESS)—The Defense Agency is reorganizing fighter squadrons and reclassifying aircraft in efforts to introduce the airborne early warning and control system (AWACS) and aerial refueling tanker.

The aim is to effectively increase the gap between the target strength under the defense program outline and the present strength in order to allow the Air Self-defense Force (ASDF) to purchase such advanced aircraft, agency sources said.

The agency is willing to modernize aircraft without revising the program outline, which was put forward in 1976 to give target numbers for aircraft and other defense equipment, they said.

The outline sets the target number of combat aircraft for the ASDF at 30 against 415 which would be ready upon completion of the present five-year defense program ending in fiscal 1990.

Agency sources said fighter-interceptor and support fighter squadrons will be unified into fighter squadrons because separation no longer makes sense.

F-15 and other fighter-interceptors were designed for intercepting enemy aircraft, and support fighters for attacking ground units and ships.

But the development of missiles and fighter technologies have allowed the two categories of fighters to be used for both missions, the sources said.

The agency is also changing the definition of combat aircraft to exclude CT-47 transport helicopters and reserve aircraft from the combat aircraft, they said.

The CH-47s will number 14 when the current five-year program is completed. Reserve aircraft usually total 30 to 40.

After the reorganization and reclassification, the Defense Agency may fix the number of aircraft including the AWACS and aerial refueling planes for procurement under the next five-year defense program starting in fiscal 1991, the sources said.

Independent Antiaircraft Missile Planned

OW2104105089 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 20 Apr 89 Morning Edition p 1—FOR
OFFICIAL USE ONLY

[Text] The Defense Agency [DA] will harness Japan's high technology and engage in independent development of the next generation antiaircraft missile. An appropriation of 4 billion yen is earmarked in the fiscal 1989 budget and trial manufacture and development will be undertaken after research on the main technologies, such as the seeker (tracking device). Mitsubishi Heavy Industries, Ltd., Mitsubishi Electric Corporation, Toshiba, and other major defense equipment manufacturers will participate in the project. The resulting missile will replace the "Hawk" missile and is expected to enter service in the early 21st century. The project will cost 100 billion yen. This will be the first attempt at independent development of intermediate range surface-to-air missiles (midrange SAM) with Japanese technology. The independent development of anti-air missiles may give rise to U.S. protests, which has been providing major defense technology through a licensing system. It may propose joint development with the United States, as in the case of the next-generation support fighter (FSX).

The DA, led by its Technical Research and Development Institute, will proceed with research on the main technologies, such as the seeker and the guidance control system. The project, termed "Research on Future Guided Missiles," will continue for about 3 years. Based on the research findings, the final blueprint for the missile system will be drawn. The project will enter the development and trial manufacture phase in the 2d half of the 1990's.

With regard to the seeker, radar waves, milliwaves and infrared rays will be combined in the sensor to produce a composite seeker with improved capability to spot targets. The missile's size and weight will be reduced by carrying microcomputers and the data processing ability of the inertial system will be upgraded in order to increase accuracy in attacking missiles and fighter planes approaching at top velocity.

The power of the rocket motor of the propelling section will be increased to produce a speed of several mach. In order to extend the range, the use of a "ducted rocket" is also being considered. The United States favors this type of rocket as the next generation propelling device.

Japanese anti-air missiles always have depended on U.S. technology. The "Nikes" and "Hawks" now in service have all been manufactured under license by introducing U.S. technology.

The Hawk is a SAM developed by the U.S. Army and the Raytheon Co. in 1954. Its main purpose is to destroy targets approaching at low altitudes. Its deployment in the Ground Self Defense Force began in 1956. Now the "improved Hawk" is being manufactured under license

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by Mitsubishi Electric and Toshiba after introducing technology from Raytheon. The improved Hawk has a range of 30 to 50 kilometers and a speed of 2.5 mach. Together with the Air Self Defense Force's "Nike J" and its "Patriot" successor, it is the mainstay of Japan's anti-aircraft defense.

Among Western nations using the improved Hawk, West Germany and France have taken moves to develop independently the next generation of missiles. With Japan also declaring independent development, the United States, which occupies a monopolistic position in the industry, possibly may protest.

Possibility of Bureaucratic Reshuffle Reported
OW2804091889 Tokyo THE JAPAN ECONOMIC JOURNAL in English 29 Apr 89 pp 1, 5—FOR OFFICIAL USE ONLY

[By staff writer Yuko Inoue]

[Text] April is a month of rituals in Japan.

Cherry blossoms bloom. New employees start work at companies. Labor unions settle wage negotiations with management.

And in the hallowed halls of Kasumigaseki, Japan's Capitol Hill or Whitehall, speculation intensifies over which civil servants will inherit the top posts in Japan's 50 powerful government ministries and agencies.

Changes this year will include top men at the Ministry of International Trade and Industry, the Ministry of Finance and the Ministry of Foreign Affairs. Japan's U.S. ambassador also may be replaced.

These bureaucratic shuffles, which are usually based on seniority, will not be affected by any changes in Japan's political arena, such as this summer's Upper House and possible Lower House elections.

Rather, the promotions are an institutionalized event that usually take effect each June and last for one or two years. This year, because of parliamentary budget delays and the July summit of industrial nations, some promotions are likely to be delayed until late July.

Hardship post?

According to political observers, the toughest post this year may well be vice minister for international affairs at the MITI, a position responsible for trade negotiations with the U.S. and the European Community.

Naomichi Suzuki, currently director general of the ministry's international trade policy bureau, is expected to assume that post, succeeding Shigeo Muraoka, who is retiring.

An eager proponent of the proposed Pacific Basin economic forum, Suzuki, 54, was involved in Japan-U.S. negotiations on patent right disputes last year.

Another major administrative change will be the departure from the Finance Ministry of its vice minister for international affairs, Toyoo Gyohten, 58.

Makoto Utsumi, 54, now head of the international finance bureau, will take his place. Utsumi was a senior official in the Japanese Embassy in Washington between 1983 and 1986.

At the Foreign Ministry, meanwhile, speculation is rising that Japanese Ambassador to the U.S. Nobuo Matsunaga, 66, will be replaced in July by Ryohei Murata, 49, now vice minister of foreign affairs.

Murata is well versed in Japan's economic policy and is known as a Middle East expert. If appointed, Takakazu Kuriyama, 57, now deputy minister for foreign affairs, would succeed Murata as vice minister.

Shaping the future

For MITI's Suzuki and the Finance Ministry's Utsumi, the new top jobs may offer little room to display their personality or ability.

But top officials can shape the future direction of even the most rigid ministry based on their past experiences.

In turn, retiring vice ministers often assume posts in private companies or government organizations through a process called "amakudari" or "descent from heaven."

At that time, it's normal that other career officials who joined the ministry in the same year as the vice minister also resign so that younger men from another "class" can vie for the top post.

Most career officers are recruited from Japan's top national universities. In 1987, 801 career officers were hired by 34 ministries and agencies.

Major promotions

In brief, here are other forthcoming major bureaucratic promotions:

—MITI. Koji Kodama will assume responsibility for domestic industrial policy planning as vice minister of international trade and industry, succeeding Hiroshi Sugiyama.

Kodama, 54, is currently director general of the ministry's industrial policy bureau.

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—Ministry of Finance. Sadaaki Hirasawa, who last year oversaw conversion of sogo or mutual banks to regional banks as director general of the banking bureau, will become administrative vice minister of finance.

Hirasawa, 57, will tackle regulation of the domestic securities and stock markets and may take the lead in settling turf disputes between banks and brokerage houses.

Masami Kogayu will continue to serve as budget bureau chief until he is promoted to the vice ministerial position, probably in two years.

—Economic Planning Agency. Takao Akabane will resign as the administrative vice minister. His successor will be Masao Yokomizo, currently vice-minister for international economic affairs.

—Ministry of Construction. Susumu Takahashi is stepping down, making way for Michio Suzuki, now vice-minister for engineering affairs.

—Ministry of Posts and Telecommunications. Yusai Okuyama will retire as vice minister and Minoru Shioya, currently director-general of the telecommunications policy bureau, will succeed the post.

—Defense Agency. Seiki Nishihiro will remain as vice minister after one year because negotiations continue with the U.S. on the FSX fighter plane issue.

Most Ministers May Remain

OW2704134239 Tokyo YOMIURI SHIMBUN
in Japanese 26 Apr 89 Evening Edition p 2—FOR
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[Text] At a general meeting of the Nakasone faction on the morning of 26 April, Liberal Democratic Party Policy Affairs Research Council Chairman Watanabe touched on the post-Takeshita government. He said: "There are many meetings ahead of us including the summit talks. Therefore, major Cabinet members may remain in their posts, may they not?" He thus expressed the view that major Cabinet members will be reappointed.

In this respect, a party leader said on the same day that "it may be better for the foreign, finance, and international trade and industry ministers to remain in view of national interests."

Reactions to Takeshita Resignation Announcement

JCP Issues Statement

OW2504130389 Tokyo JPS in English 0902 GMT
25 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, Apr 25 (JPS)—Mitsuhiro Kaneko, acting chairman of the Presidium of the Japanese Communist Party, on April 25 issued a statement on Prime Minister Takeshita's announcement made that morning of his intention to step down. The statement follows:

1. Prime Minister Noboru Takeshita on April 25 expressed the intention to step down in exchange for the passage by the Diet of the draft 1989 budget. This means that he wants the passage of the budget and the future of the consumption tax assured, both as the final touch of his mis-government. To complete this condition for his resignation has become the imperative goal of his Cabinet. This is the point on which we must be most vigilant. Prime Minister Takeshita, who totally ignores the people's opinion by repetition of his motto "Patience," has at last been cornered into making this announcement. Although coming late, it is the result of the power of strong public opinion denouncing the political corruption of the recruit business, and the consumption tax.

2. The true aim of his declaration about resignation is this: to calm public opinion, to re-unite the shaking Liberal Democratic Party, to pass the 1989 budget through the Diet by bringing around some opposition parties, to end the investigation into the Recruit scandal in smoke and hush up the political and moral responsibility for it, and shake off the rage of the people at the consumption tax. But the people will never allow such a trick. It is totally unjustifiable to legislate the budget bill as a condition for his stepping down.

3. What must be done at this moment is to probe the truth of the serious suspicion over Prime Minister Takeshita himself, former Prime Minister Nakasone and LDP Secretary General Shintaro Abe, and to make clear the political and moral responsibility of each of them. Then the House of Representatives must be dissolved, seeking the judgment of the sovereign people, the voters, in a general election. The 1989 budget should be discussed by a Diet composed of new dietmembers.

4. The Japanese Communist Party is resolved to make maximum strenuous efforts for thorough investigation into the Recruit scandal, for abolition of the consumption tax, defense of peace and the people's living, and a drastic change from LDP politics.

AKAHATA Sees Move as 'Maneuver'

OW2904224989 Tokyo JPS in English 0942 GMT
27 Apr 89—FOR OFFICIAL USE ONLY

["What Takeshita's Offering of Resignation Aims At": AKAHATA editorial"—JPS headline]

[Text] Tokyo Apr 27 JPS—In its editorial dating April 27 AKAHATA said that Noboru Takeshita's offering of resignation from premiership was part of his tricky

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maneuver to have the 1989 budget bill, a final touch of his maladministration—introduction of the consumption tax—pass through the Diet.

"The budget bill," said the paper, "is based on the introduced consumption tax, target of people's resentment, as its main pillar, and designed to serve the reactionary, anti-people, pro-big business, and pro-military build-up purposes."

The paper continued: "It is sure that this budget bill represents the final touch of maladministration which has been pushed ahead by the Takeshita cabinet and the ruling Liberal Democratic Party [LDP]. The prime minister has said that he would not resign until the budget bill passes through the Diet? In other words, he will resign not from a sense of responsibility, in response to the people's criticism, but as a means to facilitate the passing of budget bill through the Diet.

"Indeed it has been made clear from facts that Takeshita's offering of resignation is aimed at calming down the people's criticism, putting together the vacillating LDP Dietmembers, and thus pushing through the budget bill while putting an end to the investigation into the serious Recruit scandal involving the prime minister himself, former Prime Minister Yasuhiro Nakasone, LDP Secretary General Shintaro Abe, and former Finance Minister Kiichi Miyazawa.

"Another serious matter is the move of some opposition parties toward helping the LDP force through the budget bill. On April 25 the LDP and three opposition parties—Socialist Party, Komei Party and Democratic Socialist Party—held a Diet policy committee chairmen's meeting, from which the JCP [Japan Communist Party] was excluded. In it the opposition parties agreed on the resumption of deliberation on the budget bill at the Lower House Budget Committee without securing an LDP's promise to summon Nakasone to the Diet.

"It is certain that such an attitude of these opposition parties of lending a helping hand to the LDP's maneuver will be subject to severe criticism."

Symbolizes Political 'Chasm'

OW2804103989 Tokyo MAINICHI DAILY NEWS
in English 27 Apr 89 p 2—FOR OFFICIAL USE
ONLY

[Editorial: "To Recover Public Trust"]

[Text] Assuming responsibility for the loss of public trust in politics because of the Recruit scandal and other developments, Prime Minister Noboru Takeshita has announced his intention to resign.

His stepping down symbolizes the chasm that has opened up between money politics in Japan and public opinion.

This time, there should be no repetition of what has happened several times in the past, namely that despite the resignation of a prime minister, the political situation remains unchanged.

Takeshita's resignation was inevitable, considering the trend of public opinion, and many believe that he should have quit earlier.

The Recruit scandal, which first came to light in June last year, has expanded to amazing proportions. The year ended with the government and the Liberal-Democratic Party attempting to hush up the scandal and remaining passive about giving an explanation in the National Diet. It was in such a situation that the new commodity tax was forcibly pushed through the Diet.

This led to an explosion of public anger against the Takeshita Cabinet and the LDP. An "anti-LDP movement" became apparent in the Fukuoka by-election for the House of Councillors, and the Chiba gubernatorial and Nagoya mayoral elections that followed. Various public opinion polls also showed that support for the Takeshita Cabinet had fallen below 10 percent, the worst percentage ever recorded.

It was at such a time that the Tokyo district prosecutors' probe of the politicians involved in the Recruit scandal approached its final stage. It was discovered that huge sums of money had come from Recruit affiliated enterprises to Takeshita himself, LDP Secretary-General Shintaro Abe and other key figures of the Takeshita administration in the form of political donations and the purchase of fund-raising party tickets.

The feeling mounted within the LDP that the party would not be able to make a good showing under the Takeshita administration in the forthcoming House of Councillors election and particularly in a House of Representatives election. This became the decisive factor leading to Takeshita's withdrawal.

At the same time, the LDP still seems to be reluctant to summon former Prime Minister Yasuhiro Nakasone to testify in the Diet. Prosecutors investigate illegalities, but there are cases which, though not illegal, violate the spirit of the Political Fund Control Law, and in this case there is a need for a thorough clarification in the Diet to pinpoint the political and moral responsibility.

It is only after Nakasone testifies in the Diet and the political aspects of the Recruit scandal are clarified that the stage can be set for political reform. There is need of a scalpel to cut out the cancer of corruption.

In that sense, it might be contradictory for a follower of Kakuei Tanaka, the kingpin of money politics, to attempt to carry out political reform. This is a task that should be undertaken by a new leader untouched by the Recruit scandal.

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The Takeshita administration is collapsing after only one year and five months. Former Prime Minister Nakasone left three big problems for Takeshita to solve: the taxation system reform, land price countermeasures, and ending the economic friction with the United States. After conducting negotiations with the United States for the liberalization of beef and oranges, and the opening up of the construction market, the Takeshita administration devoted nearly all its time to the passage of the 3 percent consumption tax bill. The law for this was passed at the end of last year, but already it is criticized as being full of drawbacks.

In order to regain public trust in politics, drastic political reforms are needed. After the prospects for such reforms become certain, the House of Representatives should be dissolved. The resignation of Takeshita marks the start of the course to be followed.

Resignation Due to 'People Power'

OW2704133389 Tokyo ASAHI EVENING NEWS
in English 26 Apr 89 p 1—FOR OFFICIAL USE ONLY

[By Masumi Ishikawa, ASAHI SHIMBUN senior writer:
"People Power Toppled Takeshita"]

[Text] It was the power of public opinion, not a struggle among factions within the ruling Liberal-Democratic Party (LDP), that forced Prime Minister Noboru Takeshita to decide to step down. This is the point the latest drama leaves in the history of postwar politics.

As the leader of the largest intra-LDP faction, Takeshita was said to hold support from almost all the other party factions and carefully avoided the temptation to wield its authority as the chief government executive too much. Such a position and attitude were considered in Japanese political tradition as promising a long-lasting, strong administration. Takeshita also used to be able to count on opposition cooperation in times of need—this was proved when the bill to introduce the new consumption tax cleared the Diet in last December with the opposition Clean Government Party (Komeito) and the Democratic Socialist Party agreeing to join in Diet discussion of the bill.

The prime minister's supposedly strong position was, however, jolted by the anger of public opinion over the unfolding Recruit stock-for-favor scandal and the consumption tax, which was introduced on April 1. Public opinion surveys conducted by mass media showed the approval rates of the Takeshita Cabinet sliding rapidly.

People virtually "rebelled" against the Takeshita administration and the LDP in substantially cutting support for their causes in the Upper House by-election in Fukuoka in February, subsequent gubernatorial elections in Miyagi and Chiba and last Sunday's mayoral election in Nagoya.

What the public opinion seeks is not, however, only the resignation of Takeshita. People shudder and are angry over the dirtiness of the current government administered mainly by the LDP, in which power is bought and kept with money. The anger will not subside with Takeshita's resignation. It is only a step forward in the direction of changing the quality of government.

Meanwhile, the stern watch of the public opinion is also on opposition parties. The opposition parties, except for the Japan Socialist Party and the Japan Communist Party, cannot be considered to have always stood on the side of the people.

LDP Factions Discuss Takeshita Successor

OW2704092389 Tokyo YOMIURI SHIMBUN
in Japanese 26 Apr 89 Morning Edition p 4—FOR OFFICIAL USE ONLY

[Forum moderated by Chief of Political Department Raisuke Honda; participants include: Abe Faction's Masajuro Shiokawa, Miyazawa Faction's Shigeru Kasuya, Nakasone Faction's Motoharu Morishita, Komoto Faction's Torio Yamashita and Takeshita faction's Keiwa Okuta; Okuta did not actually participate in the discussion; he submitted a written response to the questions—date and place not given]

[Text]

Announcement of Resignation

Assuming the responsibility for creating distrust in politics and the political confusion in light of the Recruit incident, Prime Minister Takeshita announced his resignation on 25 April. With this, the political situation entered a new phase. YOMIURI SHIMBUN conducted a forum of officials of the various factions of the Liberal Democratic Party (LDP) to hold discussions on what kind of person should the prime minister's successor be, what sort of political reform is necessary for the revitalization of the LDP, and other issues.

Honda: First, please tell us what you felt after learning that the prime minister had announced his resignation?

Shiokawa: The prime minister made an extraordinary decision to take upon himself the responsibility to break the deadlock. In order not to render this determination and sense of responsibility meaningless, it is necessary to facilitate the smooth functioning of the Diet, which has the draft budget pending. Another thing is that we must respect the prime minister's feelings, draw up radical political reform measures, and implement these reforms.

Kasuya: The prime minister has accomplished the enormous task of tax reform. Right now, it is still caught in a storm, but I think people will eventually change their perception.

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Yamashita: The prime minister wanted to settle the problem and pass the budget by all available means. He chose to resign to pass the budget. The time limit for (speeding up upper house deliberations and) avoiding another provisional budget is 28 April. We must arrive at a solution with the cooperation of the opposition parties. We are determined to ask (the opposition parties) for Diet deliberations before the provisional budget expires.

Morishita: It was a judgment after thorough consideration to pass the budget soon. Such has always been Takeshita's philosophy. He has two great accomplishments, tax reform and imperial succession.

Okuta: As someone who participated in forming the Takeshita administration, it was regrettable. However, the prime minister has accomplished tax reform and the transition from the Showa to the Heisei era during his term. Future generations will appreciate that. The timing was extremely good, considering the passage of the budget and Japan's role in the summit (meeting of leaders of advanced countries).

Successor to the Prime Minister

Honda: What kind of person do you think should be chosen as the next prime minister?

Shiokawa: The most important thing now is the unity of the party. The most important thing is to choose someone who is best for forging unity and who can measure up to the expectations of the public.

Kasuya: The prime minister apologized to the people during his news conference (to announce his resignation). That was very significant. The successor should be someone who can respect such feelings of the prime minister and who can unify the whole party. Another thing is that he should be someone the people can accept.

Honda: It has been reported that the prime minister has sounded out Executive Board Chairman Ito as his successor.

Shiokawa: Mr Ito is the first choice.

Yamashita: He (Mr Ito) is a senior among our colleagues and a very respectable man. There are three conditions for the selection. He should be clean. He should be able to implement strictly the tax reform, which the prime minister has labored so hard for, and inherit the Takeshita line. He should be committed to dealing squarely with the (amendment) of the Political Funds Control Law regulating the collection and expenditure of funds and to purify politics. These are the three conditions. In that sense, there are many suitable candidates in the party. It will not be a case in which whoever becomes the prime minister will only be a change of the head. In reality, there may also be a new Cabinet. Many people hope that the new prime minister will be like a breath of

fresh air and exert all efforts to rehabilitate reputation. If possible, he should be able to finish his full term. I think things are moving in that direction.

Okuta: Judging from the prime minister's personality, it is absolutely impossible that he will designate a successor. Mr Takeshita became the prime minister within a framework in which all factions are mainstream factions [soshuryuha]. For that, he has suffered very much. The strength of the LDP lies in the fact that through the competition between mainstream and antimainstream factions a restitutive effect is achieved and this has enabled the party to respond adequately to the political situation. A setup in which such a lever does not function is not good. Thus, in case there are more than one candidate, it should be decided by intraparty public opinion. The suitable successor should be someone who has nothing to do with the Recruit corruption and who has great political experience. In that sense, Mr Ito, as long as his health constitutes no problem, is a strong candidate.

Honda: There have been varying opinions on whether a senior man would be better or if the successor should come from the younger generation.

Yamashita: Rather than the question of old or young, I think the choice will gradually come out after consultations.

Morishita: The successor should have determination once he has decided to do something. Then there is the question of image. It should not be a case in which the factions take turns, but we have to project a fresh image of undertaking reform to revamp the party. He should be one who can effect a radical change of image. In that sense, Mr Ito is one possible candidate. However, I would not say he is the only candidate.

Shiokawa: In the selection (of the successor) the important thing is the manner in which it is done. I hope the president, the secretary general and other leaders do things properly according to procedures. If rumors come before everything else, there is no way we can deal with personnel matters. I think how to delegate the matter to the party leadership is the prime minister's greatest headache right now. If the whole party cannot unite under the chosen successor, it will not be able to move forward. For that, there should be solid efforts to lay the groundwork in each faction.

Yamashita: Public opinion is very hostile to the LDP. Thus, we should pay close attention to the people's scrutiny in selecting the successor.

Settlement of Issue

Honda: Aside from the prime minister, isn't there a need for Diet members connected with Recruit to make a clear settlement? There have been suggestions that explanations should be made in the Diet.

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Okuta: For a politician, there is nothing more important than clarifying where the responsibility lies. Each Diet member should think about their ethical and moral responsibility as a politician. In that sense, other people should emulate the prime minister and clarify their responsibility or make an explanation. Otherwise, there is no way to show the people their willingness to clean up their act. It is a matter of course that they should offer an explanation after results of the investigation into the Recruit incident become available.

Shiokawa: I cannot comment on that. It will be difficult to ask for an explanation after the prosecutors' investigation shows someone to be innocent. However, one has to bear moral and social responsibility for creating a controversy in the mass media. I do not know how to deal with that right now.

Morishita: The prime minister's resignation is a major way of making a clear settlement. However, the Recruit issue is not everything in the problem of money politics and corruption. Since democracy and the parliamentary system necessarily give rise to the defect of money politics and corruption, at this point, we ought to think about how to correct this defect at the same time. I think applying a band-aid to a wound is no way to make a clear settlement.

Mainstream Factions

Honda: At a time like this, Secretary General Abe has been hospitalized...

Shiokawa: It is very unfortunate...

Honda: With all the powerful leaders being implicated in the Recruit corruption, I have a feeling this time, the LDP's mainstream factions setup went the wrong way.

[Yamashita] This is because it is expensive to maintain a faction and because elections cost a lot of money. The most important issue in the forthcoming reforms is how to make politics and elections inexpensive. Although faction leader-class people have been highlighted in the newspapers, they have not appropriated funds for private use. They have only gone a bit too far in gathering what has become indispensable in politics today. Don't you agree?

Shiokawa: At present the opposition parties, even the Communist Party, have come to talk of free society. The model of freedom (conservatism) versus reform has become blurred. Within the LDP, the opinion that "it will not do to quarrel inside the party; the LDP will collapse" has gained ground. The perception that the LDP had to unite gave rise to the framework of mainstream factions. The past election of the president was characterized by the absence of repeated decisive confrontation or conflict. We need new stimulation.

For the LDP to win back the people's confidence and restore popularity, it has to hold a clear vision of the future. No people will have faith in a government without a clear vision of the future. The trust and respect the people had for politicians, including those from the opposition parties, has dropped really low. They have even come to regard politics as just an occupation.

Tokyo District Prosecutor's Office

Honda: Some people inside the LDP believe that by making an intentional leak, the Tokyo District Prosecutor's Office has ambushed the Takeshita administration.

Morishita: Information is trickling out in drops. I think it is not the prosecutors who are the source, however I cannot help but be suspicious. Although we accept the judiciary's authority, the legislature also would like to deal with various problems early on.

Kasuya: In legal terms, one can only be either innocent or guilty. Why is it that in the Lockheed case there were shades of gray? There is a thing called "outrageous crime." We often hear that on many occasions one is punished before the people through the mass media. To the people, politicians—well, ideally—are the embodiment of trustworthiness and respectability of people. When politicians are guilty of something, inevitably it becomes a problem even before a legal judgment is made. We must understand that such things happen and should not harbor resentment or misgivings, but should do some introspection.

Shiokawa: We hope that a thorough investigation will be made into an incident as grave as this. However, I hope they hurry up things as much as possible.

Honda: When the new administration is inaugurated, I suppose trust in the LDP will be restored to a certain degree. Some people believe that at this point, the lower house should be dissolved to give way to double elections of the upper and lower houses to make a clear settlement.

Okuta: The prime minister has made clear where the responsibility lies. After a leader who will engage in new political reforms is elected, the support rate of the LDP will surely go up. The more drastic the implementation of reforms, the more support rate will rise. Although the people are strongly critical of the Recruit issue, they are not looking for a systemic change. However, the prerequisite for the LDP to restore its support rate is the continuation of the investigation into the Recruit incident. Of course, the succeeding prime minister has the power to dissolve the Diet, but we cannot tie his hands over the political choice of double elections at an early stage of his term of office. It is up to the new prime minister to make the decision.

Shiokawa: Even from the point of view of respecting the Upper House's independence, double elections should not be held.

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Yamashita: There is not enough time (to hold a Lower House election). Since this is a new beginning for the LDP, it needs some time to get on the right track.

Revitalization of LDP

Honda: Taking this as an opportunity, how should the LDP revitalize itself?

Morishita: Turn a misfortune into a blessing. Mr Takeshita has decided to resign as a martyr. This is very Japanese. I am moved in a sense. It will be terrible to ignore this and do something which lets his good intention go to waste. Undertaking political reform at a time like this, one tends to talk about "don'ts" and lay down rules on "don'ts" alone. It can easily give rise to offensive reforms which will later, in more normal times, get out of control and create new offenders. We have to be careful.

Kasuya: It is getting stormy for the LDP at the Tokyo Metropolitan Assembly elections in summer. It is like hitting the ball against the wind in golf or even a situation wherein one is not even able to hit the ball. Although a vision will also be important for the succeeding administration, it has to have achievements acceptable to the people in a short time. In political reform, enumerating impossible things to confuse the issue will not be acceptable to the people.

Okuta: Fearing that everything would be misunderstood as efforts to cover up the Recruit issue, the prime minister was not able to give full play to bold leadership. The succeeding administration should ensure the clear accounting of fund raiser parties and firmly implement taxation of fund raisers, ban on donations to the electoral district and ban on using political funds to deal in stocks. A reform of the election system from a midterm perspective is also an issue for discussion. Actually, we would have wanted the prime minister to give full play to his leadership on this issue...

Political Reform

Honda: We are hoping for very stern measures of political reform, such as banning transactions in unlisted stocks and so forth.

Kasuya: It is often said that "political funds are raised because politics costs too much." The "spending" aspect is given emphasis. It cannot be said that the people have no expectations with regard to the spending aspect. In the LDP's case more than two people file candidacy in an electoral district. Even if they make appeals on the party's policies, (the voters) do not know which is which. It becomes a vigorous competition of granting favors. It is rather the candidates' side which escalates the process. It is wrong to think that money is spent because people (the voters) asked for it.

Honda: Does that mean that it is necessary to reform the election system?

Kasuya: No. I do not think that small electoral districts are necessarily better. A different form of fierce competition to become the party's representative will emerge. I believe that if we change what can be changed, we can carry on with the present election system.

Morishita: Even with small electoral districts, fierce competition before the election will occur. We enforced the proportional election of the Upper House thinking that it would be less money-consuming but the result proved the contrary. A thing like that should be discontinued immediately. I believe no one thinks that this mode of election is good.

LDP Shaken By Criticism Over Recruit Scandal

OW2604200689 Tokyo MAINICHI DAILY NEWS
in English 24 Apr 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Ferment Within the LDP"]

[Text] The Liberal-Democratic Party has been shaken by the intensity of the public criticism of its role in the Recruit scandal.

According to an urgent survey conducted by the MAINICHI SHIMBUN among LDP members of the House of Representatives, those who favor summoning former Prime Minister Yasuhiro Nakasone to testify in the Diet has risen to about 40 percent. Nearly 70 percent would like to have him appear either as a witness or to make "some kind of explanation."

Regarding the Takeshita administration, one out of four would like to see the Cabinet resign when the fiscal 1989 budget is approved by the House of Councillors. When the number of those who seek "instant resignation" or "stepping down as soon as the budget passes the House of Representatives" is added, those favoring resignation total more than one-third, indicating that the prime minister needs to recognize that this is a very serious situation.

It is said that party officials, fearing the effect of surveys on the political situation, have circulated a memorandum urging members not to respond. This is certainly a strange attitude. If any Diet members obey such "instructions," they must be considered incapable of making their own independent judgment.

Calls are now being heard from within the party demanding that the Recruit scandal be fully explained in the Diet, and for the political and moral responsibility of the politicians involved to be clarified.

A recent public opinion survey conducted by the Mainichi Shimbun shows that the rate of support for the Takeshita Cabinet has dropped to less than 9 percent.

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More than 60 percent of the respondents expressed the desire that the Cabinet resign en masse or that the House of Representatives be dissolved. The prevailing atmosphere among the general public clearly differs from the prime minister's emphasis on "patience" and the passive attitude shown by party officials in explaining the Recruit scandal.

Centering on the middle core and young Turks of the LDP, several new groups demanding that politicians clean up their act have been formed. Differing from the party officials, these are politicians who actually sense a dangerous situation vis-a-vis the voters.

The survey also found that Masayoshi Ito, chairman of the LDP Executive Council, whose image is that of "a clean politician," was the most popular as a possible successor to Takeshita. Most respondents seemed at a loss as to who would be capable of succeeding Takeshita. Answers ranged from "there isn't anyone" to "someone untainted by Recruit," "a clean but influential person" and "someone from the new generation."

The LDP under the Takeshita administration is "an entirely mainstream structure" with no anti-mainstream factions. In addition, nearly all of the leading party members seem to be involved in the scandal in some way and are dependent on each other. The old LDP "pendulum theory," in which a grievous error by one faction was covered by another faction does not seem to be working this time.

The moves to clean up politics by the middle core and younger party members could bring fresh air into what has become a stifling situation. Some may consider this a grandstand play with an eye on the next elections, but for Diet members to be sensitive to the feelings of the voters in their electoral districts is by no means a "minus" in democratic politics.

The problem is that the prime minister and party officials are not showing leadership and sufficient enthusiasm toward cleaning up their house. Meanwhile, public opinion, various opposition parties, and a considerable segment of the LDP itself are desirous of having the political and moral responsibility of the politicians involved in the Recruit scandal fully clarified.

Despite this, nothing is being done because of the stubborn attitude of the party officials. They would do well to heed the results of these surveys.

Recruit Scandal Threatens Political Reform
OW2204183089 Tokyo ASAHI EVENING NEWS
in English 21 Apr 89 p 3—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 21 April editorial: "On With the Show"]

[Text] Politicians have been busy trading information with one another whenever possible since the prosecutors began turning their attention on them in the ongoing investigation of the Recruit scandal.

It is only natural that those who are aware of their guilt have become uneasy, but why is it that the course of Japanese politics depends on the next move of the prosecutors? It is ludicrous that little seems to have been done by the ruling or opposition parties to break the parliamentary deadlock.

Liberal-Democratic Party (LDP) leaders have shown willingness to break the impasse by calling on leaders of the opposition parties to start talking. We doubt the seriousness of their intentions, however. Without offering any concrete proposals on the question of testimony by former Prime Minister Yasuhiro Nakasone, they have merely promised to give an answer to the opposition's demands "somehow and sometime."

Leaders of the Nakasone faction have said that Nakasone would have to acknowledge his political and moral responsibility "somehow and sometime" after the conclusion of the prosecutors' investigation. We suspect that they believe Nakasone can easily dodge a parliamentary inquiry if he can avoid becoming a subject of the criminal investigation. We stress, however, that the common feeling is that the criminal investigation and Nakasone's political and moral responsibility are two separate issues.

The LDP appears to be at a loss since party Secretary-General Shintaro Abe, who is in charge of the party's political affairs, was hospitalized. But Abe has been tied closer to Recruit recently because it was disclosed that he received large donations and advisory fees from Recruit. There is no denying that he is no longer capable of handling his own affairs since he is unwilling to clear up those allegations. The party should replace Abe with someone else as a chief negotiator.

The only strategy of the opposition parties is to demand that Nakasone testify before the Diet. We wonder if it is enough for them to press for a parliamentary investigation of the Recruit case. There is a view that they too are taking a wait-and-see attitude on the progress of the criminal investigation because some members of those parties are rumored to be subjects of the investigation. Putting aside the prosecutors' investigation, however, they should inquire into the allegations against Abe and Takeshita with determination.

The allegations concerning the two leaders are directly tied to how the administration is managed politically. The top government and ruling party officials received large donations from the company at the core of the scandal and kept the facts hidden. The issue is so serious that it could destroy the ethical basis of popular rule.

The opposition parties appear to be worried that the LDP would take advantage of their concession if they were to agree to the opening of a parliamentary session on different issues while they were waiting for the Nakasone testimony to materialize. But they could

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demand the reopening of the special committee on the Recruit affair. We think that the opposition strategy puts too much weight on the demand for testimony.

We wonder if the posture of the opposition parties stems from their parliamentary strategy. The Japan Socialist Party (JSP) holds that it is more convenient to go into the Upper House election or a general election with Takeshita still in power. On the other hand, the Clean Government Party (Komeito) and the Democratic Socialist Party maintain that it is not in their best interests to push Takeshita too far and force him call a snap election. We suspect that their intentions oddly agree.

The four parties, including the United Social Democratic Party, had supposedly united on a political agenda calling for the resignation of the Takeshita Cabinet or a snap election. We understand that each party wants to face an election in a better position. But at a time when people are demanding political reform, the opposition parties should show by example what politics should be like, rather than making calculated strategic moves.

The corruption evidenced in the Recruit scandal is deep-rooted in the structure of LDP politics. It poses a grave threat to political reform. The people will eventually have to decide what to do about the situation by voting, but the Diet should first expose all corruption. The opposition should then demand that the LDP hand over power.

Each opposition party should stage parliamentary activities complying with this, the expectation of the people.

LDP Makes Proposal for Nakasone Explanation

OW2304203089 Tokyo ASAHI EVENING NEWS
in English 22 Apr 89 p 3—FOR OFFICIAL USE
ONLY

[Text] The ruling Liberal-Democratic Party (LDP) Friday night proposed at a meeting of secretaries-general with opposition parties to let former Prime Minister Yasuhiro Nakasone explain about his involvement in the Recruit scandal and answer questions at the Lower House Budget Committee after getting an interim report on the prosecutors' investigation from the Justice Ministry.

As the LDP has rejected the opposition demand that Nakasone testify as a sworn witness, the opposition Japan Socialist Party, Clean Government Party (Komeito) and the Democratic Socialist Party refused to accept the LDP proposal right away and the negotiations were put off to next week.

Fujinami Seen as Scapegoat for Nakasone

OW2204194489 Tokyo MAINICHI DAILY NEWS
in English 21 Apr 89 p 12—FOR OFFICIAL USE
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[Text] The highly charged controversy of politicians' links to the scandal-ridden Recruit Co. continued to widen this week as it was learned that former Chief Cabinet Secretary

Takao Fujinami told acquaintances last month he had appointed former Recruit Co. Chairman Hiromasa Ezoe, who has been indicted on bribery charges, as a special member of a government tax committee.

Fujinami, who is very close to former Prime Minister Yasuhiro Nakasone and a high-ranking member of the Liberal-Democratic Party's Nakasone faction, allegedly received 12,000 pre-listed Recruit Cosmos shares in 1987 that yielded 26 million yen in profits.

The Tokyo District Public Prosecutors' Office, which is wrapping up its investigation of the Recruit scandal, apparently views the stock transfer to Fujinami as a possible bribe to get Ezoe appointed to the committee.

According to a Nakasone faction official, Fujinami is just waiting for the right time to tell the media about his role in Ezoe's appointment to the committee.

However, Fujinami's admission in March coincided with the beginning of calls from the opposition parties for Nakasone to undergo questioning in the Diet about his role in the everwidening Recruit politician buying scandal.

Nakasone faction members are said to be worried that the Fujinami allegations will lead to increased pressure on Nakasone, while some sources think that Fujinami may be taking the blame for the appointment as a scapegoat for Nakasone.

Ezoe was appointed to the committee along with nine other private citizens in September 1985 when Fujinami was chief Cabinet secretary. The previous July, then Prime Minister Nakasone told the press while on a trip to Europe that he would like to strengthen the committee by appointing "wild horses" from the private sector, not only bureaucrats.

In a press conference last February, Nakasone, while admitting that he suggested that "wild horses" be used on the committee, denied recommending any specific names.

Fujinami has maintained a tight-lipped silence since mid-March and his office has refused to comment to reporters.

Takeshita Urged To Enact 'Drastic' Reforms

OW0105001389 Tokyo THE DAILY YOMIURI in English
29 Apr 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 28 April editorial: "Cutting Out The Cancer"]

[Text] The recommendations the Wisemen's Council on Political Reform, a private advisory panel, has submitted to Prime Minister Noboru Takeshita, must be followed in full if Japan's parliamentary democracy is to be preserved.

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The report consists of two broad categories: measures that should be carried out immediately, and tasks that should be tackled from a medium- or long-range point of view. If any politician objects to the implementation of these proposals, his intentions must be questioned.

The greatest causes of the present public distrust of politics are the huge gap between politicians and the public in their sense of money, and the suspicions surrounding the collection and expenditure of political funds.

It is Takeshita's responsibility to propose a course of political reform along the lines of the report before he steps down. We urge him first to swiftly carry out the seven measures designated as "Immediate" in the report.

Of the seven, the measures that do not require legislation, which include self-restraint by Cabinet members on stock transactions and the disclosure of their assets, should be implemented immediately after the holiday season ends on May 7. Those involving revision of laws should be handled in the current Diet session and then immediately put into practice.

The report has this to say on the present political situation:

"Since the Recruit scandal surfaced, many members of the public have suspected that structurally cozy relationships have developed among politicians, bureaucrats and businessmen.

"If politicians forget that the public's respect and trust is the most important foundation of their activities and only pay attention to what goes on inside the political world, they will be isolated from the common sense of the people."

Now that he has announced his intention to resign as prime minister, it is no longer necessary for Takeshita to be overly attentive to others in carrying out the political reforms he pledged earlier.

We ask him to carry out drastic measures to implement the necessary political reforms.

In his Recruit dealings, he has shown himself to be knowledgeable of the various loopholes in the Political Funds Control Law. In this respect, he may be the best person available to chart new avenues of major political reform that will avoid the recurrence of similar irregularities.

Who will succeed to the top political posts is, to be sure, an important subject. The most urgent task for both ruling and opposition parties now is to form a consensus on practical steps to reform the political structure.

The seven urgent items in the panel's report are the medicine necessary to cure the political sickness that manifested itself in the Recruit scandal. The longer-term suggestions are a scalpel to cut out the cancer causing the disease, so that it will not metastasize again.

Need for Reform Stressed

OW0205141789 Tokyo THE DAILY YOMIURI
in English 27 Apr 89 p 6—FOR OFFICIAL USE
ONLY

[YOMIURI SHIMBUN 26 April editorial: "Regaining Public Trust"]

[Text] Prime Minister Noboru Takeshita has announced his decision to take responsibility for the present political confusion and resign, but the task left undone is political reform.

Takeshita will step down in favor of his successor after passage of the fiscal 1989 fiscal budget.

A considerable segment of the Liberal Democratic Party [LDP] has complained that it will face rough going in the House of Councillors election this summer because of widespread public distrust in politics resulting from the Recruit scandal. There is also resentment over involvement in the scandal of those close to Takeshita.

Under these circumstances, it is only natural that Takeshita announced his resignation.

However, the need to pass the budget should not overshadow the need to accomplish political reform. The investigation into the political route of the Recruit scandal by prosecutors is entering its final stage.

The scandal should be thoroughly exposed, and then political ethics should be established and the defective political system should be corrected. Takeshita, who has strongly committed himself to reform, should not miss this opportunity to carry it out.

Reform Committees

A committee under the direct control of Takeshita as LDP president and a wisemen's council, as a private advisory body to the prime minister, were established to accomplish political reform.

Unfortunately, Takeshita has not spelled out in concrete terms his views toward reform. Therefore, he along with resistance in the LDP is responsible for the delay in completing the task. Takeshita should use his remaining tenure of about one month to push reform.

In February, he told the Diet that the most important task of his cabinet was political reform. He also admitted that in his 38-year political career, distrust of politics had never been so great.

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Public distrust of politics is centered on the unclear nature of political funds and party expenditures. The amount of money required by individual politicians is reaching the limit which can be provided by faction leaders and party executives.

There is a growing consensus among the LDP and opposition parties that donations to and expenditures of political funds must be made public and donations from politicians to constituents for such affairs as weddings and funerals must be stopped.

But it is also necessary for all parties to agree to a new election system which will enable the individual parties to alternate for ruling power in order to prevent political corruption.

Needs of 21st Century

The LDP grappled with such problems as market liberalization, relieving the tax burden and reform of the tax system. These are issues vital to the 21st century which must be fulfilled so that Japan can live up to its international responsibilities and maintain its economic activity and ensure welfare benefits to an aging society.

Takeshita is convinced that someday the tax reform will be appreciated and will take deep root in Japan. However, the government should make further efforts to deepen public understanding of the consumption tax, and correct several problems which have arisen since its imposition.

The new cabinet which will succeed the Takeshita cabinet should not be just an "image change" to ride out the present storm. It should be a vital cabinet capable of restoring public trust in politics and carrying out policies set in motion by the Takeshita administration.

Japan's policies and economy have a great influence now on international affairs. Therefore, Takeshita, who still represents Japan as prime minister, made the right decision to go ahead with his visit to ASEAN nations.

Opposition's Duty

The opposition parties have been demanding the resignation of the Takeshita cabinet and dissolution of the House of Representatives. They have been boycotting Diet deliberations on the budget, which now must be passed. There are still those in the opposition ranks who want to try to force a general election.

However, politics have entered a new phase, and it is time that the opposition cooperates in Diet business to pass the budget.

Although the support rate for the Takeshita cabinet has plummeted to an all time low, few have expectations of the opposition parties assuming political leadership.

These parties should take this as severe public criticism. They are so divided over foreign and domestic policies that the public will not support an opposition government at this time.

The Japan Socialist Party should shift its party policy in a more realistic direction and transform itself into a party based on its new declaration.

Panel Calls for Public Use of Recruit Gains

OW2904225489 Tokyo JIJ in English 1253 GMT
27 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, April 27 (JIJ PRESS)—An advisory panel to Prime Minister Noboru Takeshita Thursday urged that politicians contribute their gains on shady investment in Recruit Cosmos Co. shares for public purposes.

The request came in the panel's recommendations to Takeshita on political reforms after the Recruit stock bribery scandal led the people to lose their confidence in the government and politics.

In the scandal, influential people including some politicians and their aides were awarded an opportunity by the Recruit Co. group to buy Recruit Cosmos shares before the real estate concern began to trade on the over-the-counter stock market in October 1986.

These people earned windfall profits by selling the shares after their price soared fast on the market.

Prosecutors have indicted former officials of the government and Nippon Telegraph and Telephone Corp. for receiving the opportunity as bribes for special treatment of the Recruit group.

Takeshita, whose aide also was given the opportunity, had asked the panel to consider possible political reform measures to restore the people's confidence in politics.

The panel also recommended that the government improve disclosure of cabinet ministers' assets and ask the ministers and parliamentary vice ministers to refrain from trading in equities, real [words indistinct] membership in golf clubs and to keep their equity holdings at trust banks.

All the legislators should voluntarily refrain from buying shares before their trading on the open stock market and should disclose them, it said.

The panel sought stricter controls on politicians' fundraising parties.

Takeshita said his cabinet would implement some of these measures before he resigns possibly in late May.

He said he wants his successor to undertake long- and medium-term measures for political reform.

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Among such measures as requested by the panel are changes in the fixed number of legislators, improvement of election systems and Diet management, [word indistinct] of the political fund control and political party laws.

Opposition Parties Scorn LDP Offer

OW2104184089 Tokyo THE DAILY YOMIURI
in English 20 Apr 89 p 1—FOR OFFICIAL USE ONLY

[Excerpt] Four opposition parties Wednesday morning viewed as "premature" a proposal by the Liberal Democratic Party to disclose an interim report on its investigation into the Recruit scandal.

The proposal, made by the LDP in an effort to break the current deadlock in the Diet, was met with disdain in a meeting of the Diet Policy Committee chairmen of the Japan Socialist Party, Komeito, the Democratic Socialist Party and the United Socialist Democratic Party.

The chairmen emphasized their earlier stance that they would continue demanding that former Prime Minister Yasuhiro Nakasone be summoned before the Diet to testify about his role in the bribery scandal.

Shun Oide of the JSP stressed the party's line to step up efforts to bring Nakasone before the Diet. In spurning the LDP proposal, he stated it is doubtful whether such a report could be prepared as the investigations are still going on.

Komeito's Yuichiro Ichikawa said that he would go along with disclosure of the interim report, but only if the Justice Ministry is sure it would not affect the overall investigation, which, he added, appears doubtful.

Yukihisa Yoshida of the DSP stressed the need for Nakasone's testimony before the Diet, saying that it is wrong to think that it would be meaningless if Nakasone is innocent.

The Nakasone faction reconfirmed its intent Wednesday to refuse a summons from opposition parties for his appearance at a hearing about his alleged role in the Recruit scandal.

The decision was made at a general faction meeting Wednesday morning where Nakasone commented that he favored unity between LDP factions to protect the Takeshita administration.

Michio Watanabe, head of the LDP's Policy Research Committee, said that Nakasone agreed to refuse the summons until the members of his party agree the time is right to make such an appearance.

Watanabe added that unsubstantiated fears have been raised within the party that the Diet would be dissolved, which is the sole right of the prime minister, Watanabe said. Although public opinion is important, he added, politics cannot be run on it alone, stressing the importance of party unity.

Yoshio Sakurachi, acting faction chairman and former foreign minister, said that ending the Nakasone impasse may not resolve the Recruit problem because the involvement of the Takeshita administration is also in question and its public support is dwindling. [passage omitted]

Reactions to Proposed Opposition Coalition

Political Changes Foreseen

OW0904115989 Tokyo THE DAILY YOMIURI
in English 7 Apr 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 6 April editorial: "Political Change"]

[Text] A big political change is rapidly approaching with the opposition parties promoting a coalition government and even influential members of the Liberal Democratic Party talking about the need to reorganize the political world.

Komeito Chairman Junya Yano proposed a "caretaker government" on March 17, Democratic Socialist Party Chairman Eiichi Nagasue a "policy center" on March 29, and Japan Socialist Party Chairwoman Takako Doi a "people's coalition government" on April 4. The United Social Democratic Party (Shaminren) also favors a "caretaker government."

This means four opposition parties now advocate a coalition government.

Doi wants to call a convention of the people to discuss action against the Recruit scandal, purification of politics and opposition to the consumption tax. She would like this convention to demand the resignation of the Takeshita Cabinet.

Komeito and the DSP in 1979 embraced the idea of a coalition government, the the JSP and Komeito agreed to the concept of a coalition government in 1980. However, failure to resolve the problem of sharp disagreement over basic policy resulted in the present situation where there is no alternative to LDP rule.

There is now a great chance for the JSP to show the public that it is not just an opposition party but a party that can administer the country, as stated in its New Declaration in 1985, through drastic policy change.

Recently, it was disclosed that Recruit Co. purchased Y [yen] 30 million worth of tickets for Prime Minister Noboru Takeshita's fund-raising party, and Nippon

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Telegraph and Telephone Corp. bought official JSP party tickets by using its so-called "volunteer fund." These revelations came as a shock to the people and deepened their distrust of politics.

It is the urgent task of both the ruling party and the opposition parties to discuss in depth their ideas for a new administration and how to carry out thorough political reform.

Doi's coalition government would respect the ideas and policies of all participating parties and carry out policies in accordance with the desires of the people. To accomplish this, she would establish a "council for the people's coalition government."

Doi wants the four opposition parties and representatives from all walks of life, including citizens, women, farmers and businessmen, to participate in the council so it will have a "new national framework."

Doi admits that part of the people's distrust in politics is due to the fact that the opposition parties do not yet have enough political power to topple the LDP majority. Because of this, the LDP has remained in power for years, which encouraged corrupt politics. Therefore, the opposition parties must make great efforts to prepare themselves to take over the government.

What will count the most is formulating an acceptable policy. Doi advocates a coalition government, but the JSP must produce its own policy and ideas on governing the country first.

This task cannot be left to her "council." This is too similar to the Komeito proposal to form a "caretaker government" first, and then work out basic policy.

There remains a great gap in policy views among the opposition parties, particularly between the JSP and DSP, on the Japan-U.S. security treaty, the Self Defense Forces, nuclear power and relations with South Korea.

JCP Criticizes Plan

OW2304101789 Tokyo ASAHI EVENING NEWS
in English 19 Apr 80 p 3—FOR OFFICIAL USE
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[By Takeshi Ito]

[Text] A Japan Communist Party (JCP) executive on Tuesday criticized the coalition government plan now under discussion among other opposition parties as "no real solution" to the corruption-ridden national politics that has given rise to the Recruit stock scandal.

"It's an open secret that Japanese Diet deliberations are controlled by money.... All other opposition parties last year helped the government pass through the Diet bills

for introducing the consumption tax with behind-the-curtain deals," Tetsuzo Fuwa, vice chairman of JCP's Central Committee told a Japan National Press Club luncheon in Tokyo.

Fuwa went on to liken other major opposition parties, namely the Japan socialist Party (JSP), the Clean Government Party (Komeito), the Democratic Socialist Party (DSP) and the United Social Democratic Party (Shaminren) to "midwives" of the highly unpopular 3-percent indirect tax that went into effect on April 1.

The JCP leader also pointed out inconsistency between words and deeds of other opposition parties. Fuwa said that on April 8, the day after heads of four opposition parties met in Kyoto to discuss the anti-government coalition, JSP, Komeito, DSP and Shaminren supported a candidate jointly with the ruling Liberal-Democratic Party (LDP) in a local election in Nagoya.

It is not logically coherent that these opposition parties charge the LDP-government for political corruptions in the Diet on one hand but keep the cooperation-if-necessary approach on the municipal level on the other, Fuwa said.

Noting many questions that remain unanswered over how unlisted stocks and other forms of financial contributions had been secretly offered to influential lawmakers, Fuwa called for more thorough testimonies from suspected LDP leaders including Prime Minister Noboru Takeshita, his predecessor Yasuhiro Nakasone and Secretary-General Shintaro Abe.

Coalition in Doubt

OW3003003989 Tokyo THE DAILY YOMIURI
in English 28 Mar 89 p 1—FOR OFFICIAL USE
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["Political Pulse" column article by Raisuke Honda, YOMIURI SHIMBUN political editor: "Opposition Coalition Extremely Doubtful"]

[Text] With public disapproval of the Liberal Democratic Party soaring because of the consumption tax and the Recruit scandal, the opposition parties are in an extremely buoyant mood.

Komeito Chairman Junya Yano last Thursday demanded the resignation of the Takeshita Cabinet. he further proposed that the opposition parties ready themselves to form a coalition government should the LDP falter in the next election.

Opposition enthusiasm for finally dethroning the LDP is understandable since it is generally agreed that popular support for the ruling party has sunk so low that the LDP would not win a majority of seats in either house of the Diet were an election held today.

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However, it is debatable whether the opposition parties can overcome their political differences enough to form a united front against the LDP.

Up until now, the major obstacle dividing the opposition parties has been what position to take in regard to the Japan-U.S. security agreement and the Self-Defense Forces.

Komeito and the JSP reached a tentative agreement 10 years ago that the Japan-U.S. security pact should be scrapped when international conditions made such a move feasible and that, at some unspecified time in the future, the Self-Defense Forces should be reduced and reorganized.

Paradoxically, however, at the same time Komeito and the DSP concluded their own agreement in which it was decided that both the Japan-U.S. security pact and Self-Defense Forces would be maintained, although civilian control over the SDF would be strengthened.

The contradictions in the two agreements, especially in regard to the Japan-U.S. security pact, are readily apparent. Meanwhile in the 10 years since these two agreements were made, the policies of the DSP and Komeito have become increasingly pragmatic, while the JSP has remained staunchly opposed to both the SDF and the Japan-U.S. security pact.

It seems Yano believes that the three opposition parties can forge an alliance by agreeing to the three major principles of defeating the LDP, upholding the Constitution and opposing further military expansion. But we wonder if he really has grounds for such optimism.

New DSP Chairman Eiichi Nagasue has publicly stated that a coalition among opposition parties is impossible unless the JSP is willing to make further compromises. Under the circumstances, it could be that Yano's call for a coalition government is just political posturing meant to give him an edge in the leadership struggle among opposition parties.

It seems more reasonable to conclude that should the LDP lose the next upper house election, it will strive to form a coalition with either the DSP or Komeito, once again leaving the JSP the odd man out.

JCP Issues National Election Platform

OW2604000589 Tokyo JPS in English 0902 GMT
25 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Apr 25 JPS—"The National Election Policy of the Japanese Communist Party—Details of the Five Basic Policies" was made public on April 24 in the Diet building in Tokyo by Mitsuhiro Kaneko, acting chairman of the party's Presidium, the full text of which was carried by the April 25 issue of AKAHATA.

This is the detail of the "Five Basic Policies" in the "Appeal to the People about the Course of Japan, at the House of Councilors Election" issued by the 4th Central Committee Plenum of the JCP held in February this year. In the development of the situation since then, the "Detail" covers policies for both the House of Councilors and House of Representatives elections.

The contents of the "Details" follow: 1. Hand in hand with the people, to force the abolition of the consumption tax, the worst, unequal tax system of big tax increase on the people as resources of military expenditure, and materialize a tax cut of 3 trillion yen without tax increase (on the people). 2. To pass clear cut judgment on the Liberal Democratic Party which has been the disturbing probe in the Recruit scandal, and on all other parties that have received dirty money from Recruit and others. To sweep away corrupt politics by shedding light into the suspicious relations between enterprises and the political world, and prohibiting political fund donations by enterprises. 3. To oppose the plan for drastic malrevision of the pension system, to cut the military budget and to improve the people's living, welfare, and education. To repulse U.S. pressure on Japan for liberalization of import of farm products, and to guarantee supply of agriproducts of Japan by stabilizing farm business and the farmers' living. To curb outrage by large enterprises, and to defend the workers' living and rights, and the minor enterprises' business. To lower land prices, to massively construct public housing, to development for the people and preservation of the natural environment. To demand a fundamental change in the Government's policy on nuclear power generation. 4. To impeach the Liberal Democratic Party for making a breach of public promise, or enforcing the consumption tax to turn against the people, and indicating to pass the budget bill single-handedly (without attendance of other parties to the Diet session). To demand the resignation of Takeshita Cabinet en bloc and the dissolution of the Diet. To realize rectification of the disparity in Diet seat allocation so that the disparity in value of vote for 1 seat will be within 1:2. To oppose coercing the people into eulogizing the Tenno (Emperor) and to observe the principle that sovereignty rests with the people. To oppose the Education Ministry's imposition of "Hinomaru" and "Kimigayo" and its standpoint affirming wars of aggression, and to promote education based on the peaceful and democratic principles of the Constitution and fundamentals of education act.

5. To aim at a truly safe and peaceful world by realizing the prevention of nuclear war and the immediate elimination of nuclear weapons, the ban on chemical weapons, the general disarmament of conventional arms, and the dissolution of military blocs. To oppose the theory of nuclear deterrence, and the theory of nuclear modernization. To oppose the theory of "nuclear freezing" which fixes the present situation, and to aim at peace and security of the Far East Asia. In accordance with the actual condition of Korea that is divided into two countries, to establish diplomatic relations with North

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Korea, and to promote peaceful reunification of Korea. To oppose U.S. Bush administration's levying burdens upon allied countries. To make the Takeshita Cabinet stop the military and diplomatic policy including expansion of armaments and strategic aid which responds the "policy of strength" of U.S., and to aim at abolition of the Japan-U.S. Security Treaty for a nuclear-free, non-aligned and neutral Japan.

Collusion between ruling and opposition parties with "equal strength" or cooperation between progressive forces, the pivot of which is the Japanese Communist Party? A big advance of the JCP is called for.

DSP Chairman Discusses Policy Issues

OW0504230889 Tokyo MAINICHI SHIMBUN
in Japanese 2 Apr 89 Morning Edition p 2—FOR
OFFICIAL USE ONLY

[Text] Democratic Socialist Party [DSP] Chairman Suenaga, speaking at the party's Ehime Prefecture Federation's general meeting in Matsuyama City, touched on the future opposition parties' coalition government. He said: "Although I will be meeting Chairman Doi of the Socialist Party during the meeting of four opposition party chiefs on 7 April, I have no intention of backtracking on the DSP's position of affirming the Japan - U.S. security treaty which safeguards our country." He stressed that he is not thinking about compromising on basic issues on which the opposition parties have differences, such as security, defense, and energy. On the introduction of the consumption tax, he said that "if there is economic confusion, we will ask for a revision. In the revision process, the most extreme case would be the abolition of the consumption tax." He again strongly appealed for demanding the abolition of the tax, depending on future moves from the government and the LDP.

Furthermore, on the promise the LDP made to the DSP late last year when the consumption tax law was passed about the flexible implementation of the law for 6 months, he made the criticism that "General Secretary Abe promised that the implementation would be extended for 6 months in practice. This promise has been broken." He charged: "Does the Takeshita cabinet, which does nothing other than hide under a blanket, have the credentials to implement the consumption tax?" He thus made clear a policy of fierce confrontation.

Column on LDP Becoming Burden in Elections

OW2104150989 Tokyo ASAHI EVENING NEWS
in English 19 Apr 89 p 7—FOR OFFICIAL USE
ONLY

["Political Spectrum" column: "Engrossed in Obscuring LDP Role"]

[Text] The ruling Liberal-Democratic Party [LDP] is so unpopular these days that its name has become a "burden" in election campaigns. Symbolically, Prime

Minister Noboru Takeshita's "praying for victory" calligraphic work has been removed from the ceiling of Nagoya Mayor Takeyoshi Nishio's campaign office, according to ASAHI SHIMBUN reporters Masao Hirai and Fujio Yamakawa.

The piece of handwriting, normally a decorative centerpiece in any campaign office, disappeared after a TV crew from Tokyo shot it on April 8, the day when the April 23 Nagoya mayoral election was proclaimed. Nishio, an independent, is running with the backing of the LDP and three opposition parties—the Japan Socialist Party, the Clean Government Party (Komeito), and the Democratic socialist Party.

"I suppose someone from the LDP probably removed it," said a worker in the Nishio campaign office. But the LDP campaign workers all deny that they took it down, the ASAHI reporters say.

In the meantime, JSP and Komeito members of the Nagoya Municipal Assembly have contended, according to Hirai and Yamakawa, that the LDP should stay in the background because otherwise Nishio would lose votes. They have also argued that the LDP should conduct campaigning for the mayor separately from them.

A growing number of local LDP chapters are rising in revolt against the party headquarters, passing resolutions calling for the resignation of the Takeshita Cabinet over the Recruit stock scandal. The LDP assemblymen in Nagoya were the first to adopt such a resolution. Still, the LDP is treated as a burden by the JSP and Komeito in the Nishio campaign.

Normally, Nishio would win an easy victory over his opponent, Taira Takeuchi, backed only by the Japan Communist Party [JCP]. However, considering the fact that a JCP-supported candidate drastically shaved the victory margin of the incumbent governor of Chiba Prefecture, backed by the LDP, Komeito and the DSP, in March, the parties backing Nishio are on guard.

Stressing connections with the national government is usually the centerpiece of the campaign strategies of LDP or LDP-backed candidates. Since this is counterproductive now, Hirai and Yamakawa say, the LDP Diet members from Nagoya and the party's members of the Nagoya Municipal Assembly, in their campaign speeches for Nishio, have been calling for clearing up suspicions in the Recruit scandal and a review of the controversial 3-percent consumption tax at an early date.

"You may say we went too far with the demand for the resignation of the Takeshita Cabinet, but we took the action because we believe political reform can get under way only after Mr. Takeshita's resignation," said Takehiko Tanida, leader of the LDP members of the Nagoya Municipal assembly, at a Nishio campaign rally last week.

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Addressing the same rally, Lower House member Takeshi Kataoka, belonging to former Prime Minister Yasuhiro Nakasone's faction, said: "The resignation demand was a hard choice for the municipal assemblymen." Then he added: "Personally, I also want Prime Minister Takeshita to step down."

The majority of the LDP members of the Aichi Prefectural Assembly from Nagoya, Hirai and Yamakawa report, are of the view that the resolution adopted by their counterparts in the Nagoya Assembly on April 7 is "undesirable." Nagoya is located in Aichi Prefecture.

But one of the senior officials of the LDP's Aichi chapter says that the sentiment embodied in the resolution is shared by all local LDP politicians. "They just don't come out and say so," he says.

Revolt of Rural Electorate Seen

OW2204042989 Tokyo THE JAPAN TIMES
in English 21 Apr 89 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Angry Farmers and Democracy"]

[Text] As Prime Minister Noboru Takeshita sinks ever deeper into a political quagmire of his own making, certain phrases must come back to haunt him. Few examples of his rhetoric will be more painful than his call for the "age of the regions" (chiho no jidai).

The ruling Liberal-Democratic Party is facing an unprecedented revolt among the electorate in the regions, particularly in rural constituencies. The Recruit scandal and the new consumption tax are only part of the problem. The threat to farm subsidies (rice price-supports, for example) and the challenge of opening Japan's good commodity markets to foreign competition constitute the real flash points of discontent.

One consequence is that from Kyushu to Tohoku, anti-ruling party groups in farming areas are forming to do battle with the LDP at the ballot box. Such political action groups are reported to be already at work in at least 11 prefectures. They are certain to spread. This revolt by traditional supporters of the LDP in its crucial rural base could reshape Diet politics. Analyses of the ruling party's spectacular defeat in conservative Fukuoka in February suggest it may be just the tip of an electoral iceberg.

This calls into doubt the ways foreign commentators have played down the significance of rice-subsidy politics here. When local bureaucrats urged delays in the opening of our rice markets or politicians insisted that subsidies, even if reduced, and other restrictive trade practices accurately reflected rural grass-roots sentiments, foreign analysts tended to dismiss the arguments as mere posturing.

But when overseas critics of Japan's trade policies have aimed for a nuanced assessment—"Yes, we understand about rice, but surely there is no real problem with beef or oranges"—they have got it wrong. What is clear now is that our officials have had far less room to maneuver in reforming the agricultural structure than even cautious Diet members assumed.

What must be understood is that Japan's farmers are not caught in a sudden spasm of anger because their powerful interests have been threatened. Discontent has been building over many months. Furthermore, there has been no great rush to support the opposition parties.

Spokesmen for rural cooperatives have taken to asking skeptically whether the farm policies of the Japan socialist Party would be any better, having been ambushed by vague but soothing talk from the LDP farm lobby, farmers are in no mood to be fooled again. Tactical voting on a major scale could result. In Japan's multiseat constituencies, agricultural voting blocs could punish their would-be servants in the diet in a crushing manner.

Rural frustration with LDP policy has won considerable sympathy here from both news commentators and the public. This is partly the result of memories of the hardships suffered by farming communities before World War II, and partly because of a desire to punish the ruling party for its grasping ways.

But this understandable mood of anger with the Takeshita administration should not obscure the need for agricultural reform. Our farm sector must learn to stand on its own feet. It must become less dependent on government hand-outs and more competitive in international markets.

But the issue is not only economic. So keen have the support groups of rural politicians been to win their share of Diet largesse that democracy has been reduced to the constant pursuit of private local gain at the expense of the overall public interest. There is, quite simply, more to democracy than Diet handouts.

to be fair, Japan's massive program of agricultural subsidies has a long and complex history. many motives have been involved. Not the least important has been "oyagokoro no seiji," or the politics of parental generosity, which may represent admirable moral sentiments.

But the structures of income-redistribution between Japan's prosperous cities and lagging rural areas—created in the wake of the struggle for votes in the countryside in the immediate postwar period—must be rethought. We need a fresh approach. Without one, the age of the regions will never occur.

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YOMIURI Cited on Space Business Outlook
OW1904152289 Tokyo MAINICHI DAILY NEWS
in English 18 Apr 89 p 5—FOR OFFICIAL USE ONLY

["Perspectives—An Inside Look at the Business World" column article by YOMIURI SHIMBUN: "Foray into Space Business—Business Outlook Far From Rosy. However ..."]

[Text] Heralding Japan's long-awaited foray into the potentially rich space business, its first commercial satellite atop the 59-meter Ariane 4 rocket lifted off from the European Space Agency's launch pad in Kourou, French Guiana

Twenty minutes after launching, which had been delayed for six days due to a strike and mechanical problems, the JCSAT-1 satellite slid silently into a preliminary elliptical orbit.

Hiroshi Kamiya, president of the Japan Communications Satellite Co. (JCSAT), stood up excitedly, his eyes glued to the TV monitor.

Looking at the tropical blue sky spreading beyond the windows of the air-conditioned control room, Kamiya muttered, "When I think of everything that happened...." recollecting the hardships over the previous 15 months.

Worst Possible Start

JCSAT's satellite project got off to the worst possible start. The company was established in 1985 as a joint venture between Hughes Communications of the United States, Mitsui & Co. and C. Itoh & Co.

It had planned to launch its first satellite on a U.S. space shuttle in 1987, but the plan was shattered when the space shuttle Challenger exploded 73 seconds after liftoff in 1986, grounding the U.S. space program.

The company then changed its launching vehicle to an Ariane rocket built by the European consortium Arianespace, but the plan was again delayed following an accident to the rocket.

To top it all, in the final stage of the launch program, employees at the Kourou air base went on strike, grounding the rocket for six days.

The successful launch was all the more a happy event for Kamiya because of all the previous trouble and mishaps.

Five days after liftoff, JCSAT-1 was placed in a stationary orbit about 36,000 kilometers above the equator in New Guinea, at an orbital speed synchronized with the Earth's rotation.

The successful orbiting has sent a clear signal that tough competition between Japanese trading houses over the space business is now under way.

For the Japanese conglomerates, which had been on the lookout for new business opportunities since it became clear that they could no longer enjoy any spectacular expansion in their own traditional business fields, man's last remaining unexplored area was the only place left to turn to.

C. Itoh was the first to embark on the space business. The flourishing commercial satellite business in the U.S., where about 40 million households enjoy CATV programs sent via satellite, convinced the company of the huge business potential in this field.

The firm teamed up with Mitsui and Hughes to set up JCSAT to provide a variety of communications satellite services for companies.

Stimulated by C. Itoh's move, Mitsubishi Corp. also created a similar concern called Space Communications Corp. (SCC) with 28 affiliated firms.

JCSAT and SCC have, since then, been in a fierce price and marketing war. SCC first set the fees for its satellite business at about 10 percent lower than those charged by JCSAT, but JCSAT soon reduced its charges to a competitive level.

The business outlook, however, is far from rosy.

"It is going to take four years for the satellite business to start making money, and six years for the company to wipe out its debts," an SCC official said.

But the major trading houses have no intention of retreating from the business since they are quite confident in its long-term growth potentiality.

There are already signs that clearly indicate the vastness of the potential space business market.

Yoyogi Seminar, a leading cram school for university entrance examinations, has installed an enormous parabola antenna in its head office in Tokyo.

The school has embarked on live broadcasts, via satellite, of lessons conducted by popular teachers to its 19 branches nationwide.

Next fall, the school will start broadcasting lessons for junior and senior high school students though CATV stations to subscribers throughout the country.

"Communications satellites will completely change the picture of the so-called entrance examination industry," predicts Hidero Takamiya, head of the school's space and international division.

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Yoyogi Seminar plans to spend a total of 20 billion yen in satellite-related business.

Yoyogi's major rival, Kawaijuku, has already started live broadcasts of lessons via satellite.

In other industries, Matsushita Electric Industrial has established a satellite broadcasting system to send, from its head office in Osaka, visual information on new products to 50 marketing subsidiaries nationwide.

The company plans to increase the number of outlets that are equipped with facilities to receive pictures sent from the head office to 5,000.

NEC also plans to utilize a satellite broadcasting software education for engineers working at its plants in eight places nationwide.

Despite the mushrooming demand in this field, Japan's communications satellite market, estimated to be 80 billion yen annually, is still quite small compared with the U.S. market.

The U.S. Government spends about 2,950 billion yen every year on various space projects.

Widening Gap

Japan, however, lags far behind the U.S. in space technology. The consensus among experts is that Japan is about 10 years behind the U.S. in space technology, and the gap keeps widening.

Concern that Japan will be forced to allow the U.S. to walk away with the lion's share of the lucrative space business market is prompting many Japanese business leaders to call for larger spending by the government on space development programs.

"The government should invest more in the space field, which is the key to winning the high-tech competition with the U.S. and European countries," Tadahiro Sekimoto, president of NEC, said.

Behind his call for more money is the fact that Japan's cumulative budgets for space programs is only one 25th that of the U.S. budgets.

If domestic demand for satellite services keeps expanding, there is a considerable chance that Japan will someday catch up to the U.S. in satellite technology, just as it has done in many other fields over the past 40 years. But at least it is going to take quite long before that happens.

*** Financial Reform Committee Begins Study**
WA1804000200 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 1 Apr 89 p 5—FOR OFFICIAL USE ONLY

[Text] The Second Financial System Committee (Yakata Ryuichiro, chairman) of the Financial System Research Committee (a Ministry of Finance [MOF] inquiry organ) on 31 March began concrete study of five proposals put forward by the MOF, including the investment bank (special case law) formula, in order to take a new look at the financial system, including the division of business between banks and brokerage firms.

The same day responsible MOF officials who have been deliberating on reform, made known the following three points: 1) it should be beneficial to its users; 2) measures such as making it easier for foreign financial organizations to enter the Japanese market and making adjustments to conform to the various financial systems in foreign countries should be realized so that the system will have international applicability; and 3) the maintenance of financial discipline, including the prevention of industrial domination and protection of depositors, should be taken into consideration.

After this, during a question and answer period, the committee members queried officials concerning the five system reform proposals put forward by the MOF on 10 March: the mutual extension method, the method of establishing subsidiaries with different business capabilities and diversified operations, the method of establishing an investment bank that can conduct diverse operations as a subsidiary, the method of holding company diversification, and the universal bank method.

The committee members' questions focused on the investment bank method. It was explained that the MOF, in limiting investment banks to large financial (wholesale) operations, possesses a number of means to demarcate large and small transactions. These include the customer, the transaction amount, and the limitations of the establishment. Also, it was further explained that the objective could properly be derived from the operations now being conducted by ordinary banks, long-term credit banks, credit banks, and brokerage firms. MOF officials also responded to questions about legal problems related to the implementation of the five proposals.

At today's meeting the MOF raised the prospect of also holding deliberations soon on reforming the financial system in the Securities and Exchange Council and the Insurance Council.

The next meeting of the Second Financial System Committee will be held on 14 April and will further deliberate on such topics as the advantages and disadvantages of the five reform proposals based on today's deliberations and will start working to put together a report on financial system reform.

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Labor Shortage Looms as Deterrent to Growth

OW2804120789 Tokyo THE DAILY YOMIURI
in English 24 Apr 89 p 5—FOR OFFICIAL USE
ONLY

["Economic Perspective" column article by Yasufumi Takatsu, YOMIURI SHIMBUN staff writer: "Labor Shortage Looming as Deterrent To Growth"]

[Text] The steadily growing Japanese economy is now facing a serious problem: that may affect its continued growth—the ever worsening labor shortage. Companies have been struggling to come up with methods to overcome the crisis and various changes have been taking place in the labor market.

In a survey conducted by the Tokyo Chamber of Commerce and Industry dealing with the January-March quarter of this year, 49.3 percent of the 856 companies that replied said the labor shortage was their most pressing problem.

By size of firm, 53.8 percent of small- and medium-sized enterprises and 42.1 percent of major enterprises also placed the labor shortage problem as the most important problem they are now facing.

The problem is more serious for small companies, of course, but it is slowly creeping into major enterprises. In a survey taken three months ago, 44.2 percent of major enterprises placed "excessive competition" at the top of their list of woes, while 38.4 percent placed the labor shortage at the top.

According to types of businesses, 66.2 percent of the transport and warehouse businesses and 62.4 percent of the service industry, as well as 87.5 percent of the retail industry, complained of the labor shortage. Moreover, three out of every four construction companies are experiencing a shortage of skilled labor.

Because of the labor shortage, an increasing number of companies have been going bankrupt. A Tokyo Commercial and Industrial Research survey showed that seven companies went bankrupt because of the labor shortage in January, 12 in February and 17 in March.

The problem has been worsening, hitting construction, manufacturing, wholesale, retailing and service sector companies.

In order to overcome the labor shortage, intercorporate competition to acquire workers has intensified and, because of this, new trends have been arising in the labor market.

One example is head-hunting, a practice previously used to acquire personnel in highly technical fields. Now, even general workers in transport, service and construction industries are being scouted by professional recruiters.

A typical example is the head-hunting of taxi drivers. Taxi passengers have recently started complaining that they often get taxi drivers in Tokyo who do not know Tokyo roads. This is often because the drivers have been hired from outside the city.

When they are hired through headhunters, they are often given large salary advances in addition to their contract-signing bonus. The competition is now extremely high, according to some industry sources.

Another example of intense job competition is in the area of reemployment, especially of female workers who left their former offices to get married and have children. This practice was previously limited to areas such as the distribution industry. But now former employees are rehired in the manufacturing sector, as well as in banks, securities firms and nonlife insurance firms.

Moreover, many of those companies have adopted new labor practices such as flex-time systems to suit the schedules of the rehired workers, most of whom are housewives.

The practice of hiring people at times other than the April recruitment period is increasing, especially for engineers. To meet the needs of the computerized society, steel and electronic machinery industries as well as banking and service industries have increased their hiring of engineers at all times of the year.

As a result, the "pure-blood" system, the tendency of Japanese companies to make promotions from within company ranks and to reject outside employees—a specific character of the Japanese society—has been losing its popularity.

If the annual economic growth continues at about five percent, a serious and destructive labor shortage is predicted to hit Japan in 1995. The fierce battle for securing workers—and the resulting quest for new labor-management relations—have just begun.

*** M&A Brokerage Firms Seen as New Speciality**

41060093a Tokyo NIHON KEIZAI SHIMBUN
in Japanese 19 Mar 89 p 7—FOR OFFICIAL USE
ONLY

[Discussion between president of Nomura Enterprise Information, Teruo Goto, and Recof Group representative, Masaaki Yoshida; date and place of discussion not given]

[Text] Yoshida: Last year Japanese firms engaged in more than 500 mergers and acquisitions (M&A) transactions. I first began the M&A business 16 years ago, back in 1973 when I was with Yamaichi Securities Co. Ltd. In those days there wasn't even a word for M&A and it was on the level of one worker in finance who had had some overseas experience saying, "There's something called AQ (acquisitions), the work of the intermediary in

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acquiring companies, and it's pretty darn interesting." No one ever thought it would develop to the level of a business. By chance, around 1974, I ran into the restructuring of domestic distribution and got involved with the merger of UNEED Co. Ltd. and Kyushu Daiei.

Goto: Until October of last year I had worked for Nihon Godo Fainansu, an investment company, for about 5 years. Since we are in the position of investing in venture businesses, we associate with the top management of firms, and that we were the go-between for the transfer to Nippon Steel Corporation of the stock of Sankyo Seiki Manufacturing Co. Ltd. held by Takami Takahashi's Minebea Co. Ltd. came from this kind of relationship.

However, I am always asking employees to discard their traditional conception of a securities company. I believe that the M&A business will never take hold in Japan without the philosophy that we are handling the corporate personality, not just buying and selling companies. It will come to naught without a style that earnestly supports company management and that will make them successful.

Yoshida: Japanese companies are not inanimate like American firms, but have the whole range of emotions, such as sadness and joy. It is the company president who intensifies those emotions. The wife of one company president told me this story. "My husband got up at 0400 and kindled the sacred light, making an offering at the Buddhist altar in the house. Because, at other times, he had never done anything like that, I thought it odd and so when I asked him about it he replied that on the previous day he had made up his mind to merge." This is probably an extremely Japanese kind of story. Even now these kinds of feelings continue to be felt, but what is different now from 15 or 16 years ago is that the Japanese economy has grown tremendously large and has steadily internationalized. Managers know very well what M&A is, and they are trying to incorporate its techniques into their managerial strategies.

Goto: After you acquire the managerial resources for business—people, materials, and money—the next important element becomes how to use and deploy time and information strategically. Those persons who collect information really collect it, but those who don't, do not gather it at all. Companies must equip themselves with a system that can collect information. There is meaning to the existence of our work precisely because we live in such an era.

Yoshida: In the Japanese environment, I think we have to work hard to try to remain invisible. The large U.S. securities companies and banks take out newspaper advertisements proclaiming their accomplishments in brokering transactions, and it is necessary for them to make the actual capabilities of their firms known in order to appeal to the public. In our case, we approach with our proposal, and if our correspondent is willing to listen we take a step back at that stage and withdraw. If

we make one mistake there, we will be criticized by the other party in the mediation, who will say, "Even though it's already a discussion about my place, you still act as if it is about yours."

Goto: Just now, Mr Yoshida, you said, "Work hard to be invisible," but I want to make it a business where one can move openly in the daylight. It's only been a short time since I started this company, but all of the six deals that I have been involved with have, with the understanding of both parties to the mergers, been conducted in the open. Because the problem of insiders has arisen, the necessity for openness even at the beginning stages has appeared, and I think it is better to work hard to bring it out into the open.

Yoshida: Concerning the point of whether hostile M&A or takeover bids (TOB) will ever take hold in Japanese industrial society, I think it will not occur for some time. Since finance in Japan is quite stable, the stock of most companies is held by banks and casualty and life insurance companies. These shares support management.

Goto: Yes, that's right. The majority of the cases are those where management holds only a little stock. Because management acts according to the behavior of the big banks, as long as managers retain a secure relationship with them, it will be difficult to make hostile takeover bids.

Yoshida: Although we can say that firms have become free of the main banks or of the "chief manager system," that kind of thinking is still very deeply rooted. In cases where you make a TOB it is certain that you must have a financial institution somewhere stand in as an agent. Until you can overcome the resistance of the majority of the managers, it is probably very difficult for a bank or securities firm to decide to act as agent.

Goto: If we hypothesize that, as companies brokering M&A, we were to fight, it would probably be defensive. At present, it is reported that there are 100 to 150 cases of stock being acquired without regard to the wishes of management. Among those, there probably are cases where we have been asked for help in defense of management.

Yoshida: Couldn't we say that there no successful examples of buying stock willy-nilly in the marketplace? In Japanese corporate society I do not think there is any simple framework that says one ought to buy shares. I think it will take many years before such a concept does appear.

Goto: The strengthening of the regulations governing insiders that will take effect on 1 April is of the greatest interest to us. That is because one of the reasons we started this company was to avoid misunderstandings by the public concerning insider trading. Since we wouldn't even have been able to get started if my thinking were

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too complicated on the subject, I relentlessly pursue two dictums, both with customers, and with the employees. They are: "Don't talk," and "Don't buy (stock)."

Yoshida: In all the M&A brokering I have done thus far, there has never been an advance leak. The most important thing is to make every effort to keep the number of related parties to a bare minimum. When I was with Yamaichi we didn't even tell company management. Only I and those handling the deal knew, and we also kept the other party's participants to a minimum.

Goto: When Mr Setsuya Tabuchi, chairman of Nomura Securities Co., Ltd., was going to ask me for information, saying "I won't let anything out before the deal," the scary aspects of insider trading were pointed out to him before he did, and he then said he'd "enjoy it when he read about it in the newspaper," and that if he were told, he'd "blab it about."

Yoshida: Many Japanese insider incidents occur when a superior praises a subordinate to a third party by saying that the employee is "working on this and such." He's an insider with good intentions, that is, with no evil intention in mind, and that's the kind to be feared the most (laughs).

Goto: In the case of Japan's large financial institutions there is the tradition that such information must be passed on to the chairman, or to the company's senior advisers. These senior figures then tell current employees to "correctly express our disinterest to the related parties, before the fact." This instruction by these elder figures with the "best intentions" of teaching proper etiquette are tied to information leaks. The basic thinking and behavior patterns of financial institutions about exchanges of information is just not applicable in the M&A world. Because that type of system was created over a period of 100 years you can not condemn it, but are we not in fact on the threshold of a real opportunity to change the business culture?

Yoshida: The banks also have those kinds of systems and I do not think that M&A among fellow domestic corporations is going to increase dramatically. In the last 8 or 10 years such cases have only about doubled. However, the number of cases where Japanese firms acquire foreign companies has increased by a factor of 7 or 8. But if they continue at that pace there may be a backlash of counterattacks or criticism from overseas.

Goto: Even though an M&A broker specialty company such as ours has been established, there are many cases where nonspecialists come to us about individual deals and say things like, "You did it even though I could have served as a go-between if it was a deal with that company," or "If it was an M&A deal on that scale, I could have done it" (laughs). Lately though, it does seem we are getting them to understand the importance of the specialist.

Yoshida: Risk comes with M&A. In brokering, when you merge or acquire, it does not end with what the parties concerned have done. If it is not done with skill, it is certain that they will come to you and say, even if only half in jest, things like, "Your people were the ones who recommended this company to us in the first place," or "We'll remove you as managing underwriter." Even the financial institutions themselves don't want to bear such risks. And, that's where the advantage of the independent specialty house become apparent.

Goto: There is probably no room for us to get into the businesses conducted by our great elders on this path, such as Mr Takahashi of Minebea and Mr Shigekuni Kawamura of Dainippon Ink and Chemicals Incorporated. Outside of that, even if principals negotiate among themselves, it becomes apparent that it is necessary to borrow the knowledge of a specialist in order to work out the final conditions. Even in those cases we receive a "brokers' thank-you gift" payment as a specialist house.

Yoshida: I've been saying this all along, but there are no competitors in M&A brokering work. I suppose that if one day you and I suddenly got the same idea and moved on the same company we could be in competition, but that just does not happen. That's because the iron rule of M&A is that information must be current and exclusive.

Goto: It's the handiwork of each person. As of now, it has been four months since I founded this present company and it's true, Mr Yoshida, that I have not met you even once. In the business world of the future there will be firms that are, on the one hand, super-sized, but on the other hand, there will also be a world of specialization. There are 10,000 employees at Nomura Securities, but my present company is run with only 30. High-quality work comes easily from a small world. It is in that sense that I want to create high-quality small and medium enterprises.

* BOJ Paper Describes Domestic Price Trends

41060089 Tokyo SANKEI SHIMBUN
in Japanese 9 Mar 89 p 9—FOR OFFICIAL USE ONLY

[Text] The Bank of Japan [BOJ], on the 8th, published a paper analyzing recent domestic price trends. According to that paper, the basic factors that have supported price stability up to now, such as the strong yen and cheap oil, are tapering off. The paper also issues a strong warning against opportunistic price increases and large wage hikes caused by the introduction of the consumption tax during a time when the supply of manufactured goods is increasingly becoming tighter. On top of that, the paper states that further increasing the import of foreign manufactured goods and producing a competitive relationship between them and domestic manufactured goods is needed and, to that end, strongly demands a further easing of restrictions.

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The paper raises the following as price stability factors that up to now have been important in the economic expansion: (1) the reduction of import costs caused by the strong yen and cheap oil; (2) the decline of labor costs per unit produced (unit labor costs) caused by the expanded volume of production; and (3) the surge of imported manufactures which became comparatively cheap because of the strong yen (the so-called "import safety valve" effect). However, the paper, in discussing the future price trend, states that the environment surrounding prices is becoming increasingly severe. The price of oil is increasing, and the markets for other international commodities are also on the rise. In addition, with the uniformity of the strong yen and the expansion of domestic and foreign economies, the price of overseas manufactures is also rising. Hence, the paper believes that "the import safety valve effect is receding."

Moreover, concern is high that unit labor costs will soon start to rise again as a slowdown in the tempo of production expansion becomes difficult to avoid and productivity growth hits the ceiling. Because it is possible that the effect of a nominal wage hike will still be reflected in higher consumer prices, the report attempts to contain any large spring wage hike offensive by stating that "working hard at economic management is vital so that wage increases caused by inflation psychology will not rise excessively."

Furthermore, the paper warns that if opportunistic price hikes accompany the introduction of the consumption tax in April, the anticipated inflation rate will rise, and the surplus capital caused by an easing of credit will be used for speculative accumulation of inventories.

Consequently, while the paper demands continued automatic responses in the macroeconomic policy area, it also advocates the need to plan to keep prices in check by easing restrictions in the microeconomic policy area.

The paper points out once again the Bank of Japan's position on prices up to now. As this paper states, "We [BOJ] do not mean to 'cry wolf,' but if we do not stay alert, the 'wolf' will come." In other words, it does not see the present situation inextricably tied to an inflationary spiral.

EPA Proposes Lifting Curbs To Free Competition
OW2204162589 Tokyo ASAHI EVENING NEWS
in English 21 Apr 89 p 3—FOR OFFICIAL USE ONLY

[Text] An Economic Planning Agency (EPA) group studying market-entry restrictions in Japan Thursday filed a report advocating free competition in passenger-transport, telecommunications and large-scale retail businesses.

Stressing the importance of consumers' benefit, the report called for abolition in principle of existing legal curbs on new market participation in such industries as domestic air travel, bus, taxi, telephone and retailing.

Headed by Prof. Tsuruhiko Nanbu of Gakushuin University, the economic group that gave the report is one of 13 set up by EPA in a bid to advance the relaxation of market-entry restrictions which the government last year made a pillar of the 1988-1992 economic management plan.

In the domestic airline business, the report recommended free competition in tariffs and services in addition to scrapping of the transport ministry-sanctioned detailed regulations for new business operations.

Inter- and inner-city bus service was advised in the report to be also kept out of government controls. It suggested that the bus operators should be left free to revise their service areas and fares.

The report recommended the same free-market principle for the taxi industry, but added that the government should set up official cab fare ceilings in order to protect consumers from being overcharged.

In the telecommunications field, the report supported free competition in both long-distance and intra-city telephone call businesses.

1988 Crude Steel Production Up 3.7 Percent
OW2104140489 Tokyo MAINICHI SHIMBUN
in Japanese 14 Apr 89 Morning Edition p 8—FOR OFFICIAL USE ONLY

[Text] Japan's crude steel production in 1988 rose by 3.7 percent from the previous year to 105,650 thousand tons, according to a 13 April Japan Iron and Steel Federation statistics report. This production exceeded the figure projected by the Ministry of International Trade and Industry [MITI] in late March by more than 100,000 tons, thereby putting Japan's crude steel production at more than 100 million tons for 2 consecutive years. This year's production is likely to be more than 103 million tons, spurred by robust domestic demands. Consequently, the country is certain to maintain the level of 100 million tons in its production of crude steel for the 3d consecutive year and it is possible to maintain this level for a 4th consecutive year. MITI is compelled to make a large upward adjustment on "85 million to 90 million tons" which they projected 2 years ago as a target for crude steel production in 1990.

Blast furnaces produced 73,970 thousand tons (accounting for 70 percent), up 2.9 percent, while electric furnaces produced 31,680 thousand tons (accounting for 30 percent), up 5.7 percent. In all, the year's production was at its highest level since 106,470 thousand tons were produced in 1984. In particular, electric furnaces in

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March produced 2,840 thousand tons, registering a monthly production record. Their total production in 1988 also set a new annual production record after 3 years.

The crude steel production in 1988 was far less than the 120-million-ton record set in 1973, and did not rank among the top five production marks of the past. However, an official from the iron and steel industry said that the domestic consumption of steel materials in 1988 was at an all-time high. In making this statement, the official is thought to have considered such factors as exporting and importing crude steel, and the losses at processing stages through technical renovation.

At present the statistics report on the real domestic demands in 1988 has not been published. However, a vice president of a major steel company said: "At present the crude steel production is going below the business barometer for iron. The consumption of steel materials is at an all-time high."

Columnists Says Media System Loses Credibility
OW1504131489 Tokyo THE DAILY YOMIURI
in English 14 Apr 89 p 6—KFOR OFFICIAL USE ONLY

["Ombudsman" column article by Takeshi Maezawa, YOMIURI SHIMBUN ombudsman: "Lessons of Recruit"]

[Text] "The press has entirely lost its authoritativeness and credibility," Satoshi Watanabe, executive director of the Japan Advertising Association, told the 32nd annual conference of The National Council to Promote Media Ethics, held in Tokyo toward the end of March.

Not one of the 180 participants raised any objection to the statement. Most, instead, expressed fears that freedom of the press in Japan had been doubly undermined, from the outside through official regulations and restraint, and from the inside by a lack of real professionalism among media people. They also stressed that the latter could easily have been prompted by the former.

The council consists of representatives of a broad range of media—newspapers, magazines, book publishers, film-makers, TV and radio.

Osamu Asano, chief representative of the council, said in his opening speech: "The council, in a global sense, is a unique and independent organization aiming to enhance media ethics and establish freedom of the press and speech."

However, it could also be mentioned that the council used to have its annual conference without fail every autumn, but that last year it was postponed indefinitely, ostensibly because of cancellations by many participants

who claimed to be too busy covering the illness of Emperor Showa. Even now, nobody really knows how well-based these excuses were.

A good number of representatives of book and magazine publishers, in particular, argued that the conference should not have been postponed, and that the postponement itself illustrates how severely limited is the independence of newspapers.

This time around it just so happens that most media organizations are eagerly devoting their efforts to investigating and reporting the Recruit scandal. And at the same time we have learned that some media people, just like the politicians and bureaucrats now under investigation by prosecutors, have purchased prefraction shares of Recruit Cosmos, a subsidiary of Recruit Co. More than that, our colleagues have done the same thing as executives of the Recruit group by accepting appointment by the government to various advisory committees and enjoying the coziest of relations with the government.

Naturally the two issues—the overabundance of reporting on the late Emperor's demise and the involvement of the media in the Recruit scandal—affected the thinking of the council participants and generated more earnest discussion than any previous conference on ways to improve media ethics.

Sadao Oda, deputy chief of NHK Examination Chamber, listed what he saw as "outside interferences." Among them:

- 1—The revised Diet Testimony Law, by which both still cameras and TV cameras were barred from hearings sessions.
- 2—Legislation on insider share trading, the result of which will be a refusal on the part of companies to share information.
- 3—A slew of defeats for the media in libel suits.
- 4—The decision by the Supreme Court to uphold seizure from NTV of master video tapes on the Recruit scandal.
- 5—A series of court injunctions prohibiting the publication of various books.

For my own part, I presented the conference with a number of questions on the professionalism of journalists in Japan:

- 1—The press club system provides members with a monopoly on information from public offices and private organizations, leading to the danger that such bodies can exercise control over the media. (As evidence of this, I cited the Feb. 27 "one way" press conference of former Prime Minister Yasuhiro Nakasone, in which he wanted to explain his alleged involvement in the Recruit scandal, to political reporters only, and under the strict condition that all questions be submitted beforehand in writing and that investigative reporters be completely banned).

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2—Appointment of media people to government committees, a likely cause of compromise for the media representatives.

3—Junketing.

4—Various services or gifts, such as tickets or expensive meals, offered by news sources.

In the end, though I should have expected it, I was strongly impressed by how many journalists do not believe their freedom to gather and report information is guaranteed and who do not highly regard the morals and ethics of journalists in Japan, even though the mass media infrastructure is as developed as the nation's industrial base.

A foreign journalist told me somewhat cynically that Japanese media persons may find it impossible to elevate their consciousness as journalists in less than decades. My response is: "Doesn't the frank and enthusiastic debate at the conference indicate that improvement in Japan might be expected in the nearer term?"

*** Foreign Currency Deposits in Domestic Banks**
WA1704000400—FOR OFFICIAL USE ONLY

[Editorial Report] The Tokyo NIHON KEIZAI SHIMBUN in Japanese on 8 April carried a frontpage article reporting "a sudden increase in foreign currency deposit balances" in Japanese banks. At the end of March, the foreign currency deposits in major banks totaled about "\$300 billion," an "increase of 150 percent in 1 year." Due to "fierce" competition among banks for deposits, in the month of March alone deposit balances rose by "about \$40 billion."

In addition, controls on impact loans have been relaxed and there have been "double option activities by banks," which have worked to "increase foreign currency deposits." The Bank of Japan (BOJ) feels that "there is a large risk in the double option of making impact loans with foreign currency deposits," and if these trends continue, "money supply control will become ineffective." The BOJ is therefore "strengthening its supervision" over these loans.

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Cambodia

Defense Minister Tie Banh Interviewed

HK2804080589 Hong Kong ASIaweek in English
Vol 15, No 18 5 May 89 p 25—FOR OFFICIAL USE ONLY

[Text] After a trying day, Tie Banh likes to kick off his shoes, unbutton his shirt, light a cigarette and unwind over a cold beer. The three-star general has reason to enjoy his breather while he can, for he faces fresh trials ahead. As defence minister of the Cambodian regime installed after the Vietnamese invasion ten years ago, he will be in charge of waging an unaided war against the Khmer resistance forces when the last Vietnamese troops withdraw. Can Phnom Penh's forces stand alone against the determined Khmer Rouge? "In our hearts," says Tie Banh "we are convinced that we will win and succeed over the enemy because we have support from the people. Our people hate the Khmer Rouge."

Those fighting words may yet prove needless. If new talks between Phnom Penh and the resistance produce a political settlement, Cambodia as a whole might finally be able to cool down after 20 years of fratricidal turmoil. Vietnam's Sept. 30 withdrawal deadline has put new pressure on the three-pronged resistance coalition headed by Prince Norodom Sihanouk to come to terms with Hun Sen, prime minister of Cambodia's Hanoi-allied socialist government. A scheduled May 2 meeting between the two in Jakarta had raised the chances for a breakthrough. But as diplomatic brinkmanship escalated last week and fierce anti-resistance shelling erupted on the Thai border, that prospect was coming undone.

Sihanouk, whose coalition is backed by China and ASEAN, has demanded that Phnom Penh dismantle its regime in favour of an interim government consisting of Hun Sen's people and the three guerilla factions. The 38-year-old Hun Sen has refused. While offering roles to Sihanouk and onetime liberal premier Son Sann, whose guerilla factions are arrayed along the Thai border, he has balked at the Khmer Rouge, much reviled for its 1975-79 reign of death and terror. Sihanouk said last week he would go to Jakarta but would not speak to Hun Sen, asking Son Sann to act in his stead. In turn, Hun Sen vowed that Cambodian elections would be held under his government within a few months after the Vietnamese leave—with or without the prince's aid.

These manoeuvres came against a backdrop of the pending mid-May Sino-Soviet summit, at which Beijing will be under pressure to end aid to the Khmer Rouge. Soviet leverage has been strengthened by Phnom Penh's brighter image under the rangy, youthful Hun Sen, whose economic reforms have stabilised the currency's exchange rate and led to bustling markets in the capital selling a wide variety of goods. But another card has not

been overlooked: last week artillery fire poured across the Thai border into Khmer Rouge camps at the rate of 2,000 shells a day, apparently a softening-up exercise to prove the military's punch.

To assess that clout, Indochina Correspondent Geoffrey Klaverkamp spoke with Tie Banh on April 19 at his spacious home outside the capital. Himself a native of the Thai border region—the province of Koh Kong—the 45-year-old commander speaks fluent Thai and accompanied Hun Sen on the latter's pathbreaking visit to Bangkok in January.

Having joined the communist insurgency in 1962, he split with Khmer Rouge warlord Pol Pot in 1974. His appointment as defence minister last August was seen as a sign of trust in his ability to knock the military into shape before Vietnam's withdrawal. Excerpts from the talk:

Who is winning the war?

Pol Pot's group especially want to destroy our revolution and the achievements of our victory. But they cannot succeed. Since 1987, they have not gained any land inside the country and their strength has weakened. So, briefly speaking, the war in Cambodia is not big. It is a small war.

By yourselves, can you withstand an all-out Khmer Rouge offensive?

We will defend our revolution. We have our defensive position and our strategy. We never let them attack us first. Vietnamese troops have been withdrawn seven times already—last year alone some 50,000 left. This is a big number, and yet afterwards we were still able to defend ourselves. So in our hearts we are convinced.

Which parts of the country don't you control?

It's true there are places where we cannot stay very long—places where the Khmer Rouge infiltrate and go back. But they don't have any territory for permanent bases in the country. When they infiltrate, their men see the security and good living standards of our people and many want to join us. In 1987 and 1988 the number of defectors reached 5,000. In the first quarter of 1989 more than 1,000 joined us. We also have our own defectors who cross the border because they want to go to third countries, not to join the enemy. But they are captured and they declare they are defectors. Okay. But the real number is very small, perhaps only five.

How do you gauge the resistance's strength?

We estimate Pol Pot's forces at no more than 18,000, of which about 10,000 are under arms. Some say their 450th Division under commander Sok Peat is the toughest. Sihanouk's forces were small, but now they number around 9,000. As to Son Sann, we once estimated he had

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10,000 fighting men, but this has fallen to about 6,000. The Sihanouk and Son Sann forces are not remarkable fighters, but the Pol Potists have many tricks. Their ambition to destroy the country is greater.

How many troops do you have?

That is a secret (laughs). Frankly speaking, if we include the militia, our forces are five to ten times stronger (than the resistance). We believe our fighters are ten times better. We don't consider the number but the will and the spirit, the education and equipment.

Is it true that fewer soldiers are being drafted while militias are expanding?

Yes. You see, we don't have enough money to develop our forces sufficiently, so militias are the best way for us. We give them clothes and equipment, but otherwise they provide for themselves. They can find food. If they don't have radios, they can use traditional methods. They have their own signals. They use animal sounds. Of course, we have regular forces living in defence villages to assist with problems. But when a small enemy group infiltrates, it is the militia's duty to eliminate them.

Do you see any chances for peace?

There will be peace in Cambodia, but it will take time without a political solution. This war will not end quickly. But I hope the level of warfare does not spread.

Vietnam

Official Discusses Foreign Investment

OW2604064689 Tokyo NIHON KEIZAI SHIMBUN in Japanese 22 Apr Morning Edition p 6—FOR OFFICIAL USE ONLY

[By correspondent Hasegawa]

[Text] Hanoi, 19 Apr—On 19 April Vo Don San, vice chairman (a cabinet member) of the State Investment Cooperation Committee and a top official responsible for introducing foreign investments, granted an exclusive interview to a NIHON KEIZAI SHIMBUN reporter. In the interview Vo made it clear that the committee would set up offices in Hanoi and Ho Chi Minh City within 3 months to handle overall foreign investments and act as a contact organization for foreign investments. He also disclosed that formulation of detailed guidelines for foreign investment and labor regulations would be completed within 3 months. Expressing high hopes for Japanese investment in export-oriented industries, he said that members of the U.S. Ford Foundation have visited Vietnam to survey the investment environment.

The committee was established in accordance with the new foreign investment law which was promulgated last January. The Ministry of Foreign Economic Relations

has so far handled foreign investment applications on behalf of the committee. In the interview, the vice chairman said: "Personnel changes in the committee will be completed and its offices opened within 3 months. Foreign investors will be able to complete all procedures at the offices."

After the new investment law was announced last September, each ministry was asked to work out detailed business guidelines, but this work has been delayed. Regarding the delay, he said "Vietnam will announce, by the end of June at the latest, labor regulations stipulating the rights and obligations of employers and workers—including employment, dismissal, and wage increases—and business guidelines related to taxes, loans, and land taxes."

Philippines

Aquino Discusses Bases, Guerrillas, Vigilantes

PM2604105089 Milan CORRIERE DELLA SERA in Italian 23 Apr 89 p 6—FOR OFFICIAL USE ONLY

[Interview with President Cory Aquino by Loretta Bondi in Manila; date not given]

[Excerpt] Manila—[Passage omitted] [Bondi] The United States, your major ally, is clearly anxious to begin right away negotiations on the continued presence of American military installations in the Philippines. You recently said that negotiations with a view to the present treaty's expiry in 1991 will be started this year, adding that their outcome will be determined by "national interests." What does this mean in practice?

[Aquino] I believe that we will be able to start talking by the end of the year because I know that in September 1990 we will have to decide whether or not the United States can continue using the bases here. As I have said, I will do whatever national interests dictate.

[Bondi] Some maintain that national interests require the dismantling of the bases, and on Friday communist guerrillas killed American Colonel James Rowe in Manila....

[Aquino] I believe that the extreme Left will use every available means to sow confusion and generate opposition to the bases. We will do our utmost to cast light on this crime.

[Bondi] Do you believe that the American military installations make the Philippines more secure or not?

[Aquino] This is a matter that will be broached at the negotiating table, and it would be premature to discuss it now.

[Bondi] How would you regard an expansion of Japan's military role in Asia?

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[Aquino] Of course we all remember what happened here during World War II, and I would naturally prefer Japan to remain an economic power, helping the developing countries by providing them with economic aid.

[Bondi] Let us return to the communist rebels: What is your present assessment of the conflict?

[Aquino] I have been accused of weakness because at the start of my term of office I sought, and secured, a 60-day truce with the rebels. We subsequently discovered, however, that those 2 months of peace—providing an opportunity to see at first hand what had changed in the Philippines since the revolution—convinced many rebels to lay down their arms. I have always maintained that a totally military solution to the guerrilla problem could not work. It is much more important to deal with our people's economic needs.

[Bondi] Nevertheless, the guerrillas are still winning support because the social differences are still huge. Furthermore, there is a widespread belief that you have provided the country with relative stability by making concessions to the Armed Forces and modifying your original unconditional commitment to defending human rights. Would you care to clarify these points?

[Aquino] We have very limited resources and an infinity of differing demands, so we have been unable to act as fast as we would have liked. I hope that through the multilateral aid program to the Philippines we will succeed in initiating the projects from which the poor will derive the greatest benefits. In this connection I would like to give priority to creating jobs and factories, rather than infrastructures, by directly involving the private sector. To answer your other questions: It is true that we have improved Armed Forces' conditions, just as we have those of other sectors of the government. With regard to human rights violations, yes, we must admit that they do still occur, but they are isolated cases. We have a Presidential Commission on Human Rights, and I want to encourage people to approach this body rather than the press or bodies that have no authority in this regard. I want to stress that many of these reported violations stem from existence of the guerrilla. As you are well aware, we also have to deal with forms of right-wing extremism.

[Bondi] Are you not worried that forms of so-called "self-defense," the existence of vigilante groups and the "volunteer civilian militia groups" (CAFGU) envisaged by the Constitution, could turn the country into a nation of informers, of citizens spying on one another? Those who have approached the presidential commission have been disappointed: Indeed have there not hitherto been only 12 sentences passed out of a total of hundreds of injustices?

[Aquino] The CAFGU's are very different from vigilantes: They are selected by the actual inhabitants of the villages in which they operate, and trained and monitored by the local peace councils. The initial reports I have received on them from mayors and other citizens are positive. As for reports to the "Human Rights Commission," you must bear in mind that witnesses are sometimes afraid to come forward. Democracy takes time—time for investigations, for trials, and for the gathering of authentic evidence. [passage omitted]

Laurel Discusses U.S. Bases Agreement

OW2204214089 Tokyo NIHON KEIZAI SHIMBUN
in Japanese 22 Apr 89 Morning Edition p 6—FOR
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[By correspondent Kumamoto]

[Text] Washington, 21 Apr—Philippine Vice President Salvador Laurel granted an interview to a NIHON KEIZAI SHIMBUN reporter at a Washington hotel on 20 April during his visit to the United States. Referring to the lease agreement on U.S. military bases, an agreement which expires in 1991, Mr Laurel stressed that "the Philippine Government should begin negotiations with the United States immediately." He expressed his view that the "agreement should be extended for 5 to 10 years" in order to maintain the military balance in Southeast Asia. This advocacy for extending the agreement by an influential Philippine politician will create a stir for any future debate on the issue of U.S. military bases in the Philippines.

Mr Laurel contended that Japan and the countries of the Association of Southeast Asian Nations (ASEAN) should participate in any consultations on geopolitical changes involving U.S. military bases in the Philippines. He explained that in view of the fact that domestic procedures such as approval by the Philippine Senate and referendums are involved, "it is a wise move" to begin negotiations with the United States at the earliest possible time. He criticized President Aquino, saying that "I cannot agree with President Aquino, who is reserving her opinion on the base issue until 1991."

Asked whether he will run in the next presidential election scheduled for 1992, he refused to clarify his position, saying that "I do not know." He pointed out that 1) communist guerrillas have infiltrated further under the Aquino government, and 2) President Aquino has no political party but that formed by her relatives. However, he expressed a strong desire to be considered for a presidential candidacy and explained his plans to create a national party in late May in which all opposition forces could participate.

Mr Laurel resigned as foreign minister in September 1987 because of his differences with President Aquino over the measures to take against the communist guerrillas. Although he remains vice president, he is not involved in the policy of the Aquino government.

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✓ **NPA Chief Romulo Kintanar Interviewed**
HK2104063389 Hong Kong FAR EASTERN
ECONOMIC REVIEW in English 27 Apr 89 pp 21,
22—FOR OFFICIAL USE ONLY

[Text] NPA [New People's Army] chief Romulo Kintanar—who escaped from a military prison in November 1988—represents the new, younger core of leadership in the Philippine insurgency. Like alleged CPP [Communist Party of the Philippines] acting chairman Benito Tiamzon, Kintanar was not with the original group around CPP ideologue Jose Sison which founded the CPP in 1968.

Kintanar, a nephew of an Armed Forces of the Philippines (AFP) military intelligence general, joined the insurgency in the early 1970s at the height of massive student demonstrations against the Marcos government. Two weeks ago, Kintanar—who openly admits his designation as "chief of staff" of the NPA—replied to a list of written questions submitted to him by REVIEW correspondent Rigoberto Tiglao. An edited version of Kintanar's replies:

Government reports have claimed that the NPA has lost ground since February 1986, pointing out that the NPA has not recovered at all in two of its major guerilla fronts during the Marcos years, the Davao City area and Samar. Your comment?

Our losses in Davao were due not mainly to enemy infiltration (as some AFP analysts have claimed) but to intense military operations and propaganda against the revolutionary forces. However, we are rapidly recovering and signs of renewed intensification of the revolutionary armed struggle in the region can be observed in the past few months. We expect all our fronts to erupt within two years, though there will be spearhead fronts and support fronts.

Our forces continue to advance in Samar and you can find here one of our most highly organized mass bases, covering practically the whole island.

How do you react to interpretations of recent CPP statements that the NPA has scaled down its 'sparrow' (urban guerilla) operations because of the backlash?

Partisan operations in Metro Manila remain selective in their targets. These are limited to AFP officers and soldiers and policemen confirmed to have committed serious crimes against the people and the movement. What some sections of the media have portrayed as "small-time policemen" allegedly victimized by the NPA sparrows were in reality notorious police elements hated by the local community for their abuses and crimes. But we need to explain this more adequately to the wider public.

We have a sufficient number of organizers and operatives to launch complicated special operations in Metro Manila, Cebu, and Davao.

Could you explain the CPP statement that the NPA "must act against U.S. military installations and business enterprises"?

Our starting point is that all U.S. military and related civilian forces in the country are forces of occupation. All of them are targets of the movement, especially those directly involved in counter-insurgency operations. They have no business being here, even for the purpose of rest and recreation.

There are reports that the NPA's major problem now is the acquisition of high-powered arms, such as anti-tank missiles and mortars. Is this accurate?

High-powered arms like the ones you mentioned are needed to raise the level of tactics in revolutionary warfare. More important than such weapons is the all-out mobilization of the masses for armed struggle.

Do you see any possibility at all of more ceasefire talks with the government?

What for? There is no basis (at present) for a ceasefire or negotiations. (However,) if the situation in the battlefield changes, it may force the regime to make certain concessions. Then negotiations are possible.

How do you assess the AFP's counter-insurgency strategy and its moral now?

The military calls their new strategy a "war of quick decision" within which they employ the tactics of gradual constriction. This simply means zeroing in on major guerilla fronts and bases, destroying the mass bases and wiping out the bigger NPA formations. But too late. The movement has struck deep roots among the masses in the countryside and urban areas, and has attained battalion- and company-sized operations.

The AFP's vigilante groups are disintegrating. In Davao, for example, their leaders are quarrelling among themselves for money and other spoils. The AFP is more divided than ever. Factionalism has become more intense. Corruption and the palakasan (patronage) in promotions and field assignments are exacerbating the internal conflicts.

How did you get involved in the communist movement?

I joined the movement as a mass activist during the 'First Quarter Storm' of 1970 (the height of student demonstrations against the Marcos government). A year later, I was sent to Isabela (a province at the northernmost tip of Luzon island) for military training and there

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served in the special unit of the NPA. Vic Corpus (a former NPA leader and now a colonel in the AFP) was my commanding officer and we developed a close relationship. In 1972, I was captured at the height of military operations in the area, but when I was brought to Manila, I found a way of escaping. Then I was assigned to work in the hilly areas of Rizal and before long, I was developed to Mindanao.

It was there that my military and political skills were honed. I became part of the development of the NPA in Mindanao from the days of the squad-sized, full-fledged guerilla units to the present companies and battalions. As a member of the CPP, I served in the party committees within the NPA and in several territorial committees. I had not seen my uncle (the AFP general) for a very long time, until I was arrested last year. He was unable to identify me when I was brought to him for interrogation.

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